

Report on the

**Alabama Trust Fund and the
Alabama Forever Wild Land Trust**

State of Alabama
Montgomery, Alabama

October 1, 2010 through September 30, 2011

Filed: August 3, 2012



**Department of
Examiners of Public Accounts**

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Ronald L. Jones, Chief Examiner



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Honorable Ronald L. Jones
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-21, I submit this report on the results of the audit of the financial statements of the Alabama Trust Fund and the Alabama Forever Wild Land Trust for the period October 1, 2010 through September 30, 2011.

Sworn to and subscribed before me this
the 20th day of July, 2012.

Paul Traylor
Notary Public

Respectfully submitted,

James D. Miller

James D. Miller
Examiner of Public Accounts

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Department of
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SUMMARY

**Alabama Trust Fund and the
Alabama Forever Wild Land Trust
October 1, 2010 through September 30, 2011**

The Alabama Trust Fund (ATF) was established and operates under the authority of the *Alabama Constitution of 1901*, Amendment 450. The ATF was established as a permanent trust fund for the continuing benefit of the State of Alabama and its citizens. The ATF is under the management and control of a legally established Board of Trustees, and all powers necessary or appropriate for the management and control of the ATF shall be vested solely in the Board.

The Alabama Forever Wild Land Trust (AFWLT) was established and operates under the authority of the *Alabama Constitution of 1901*, Amendment 543. The purpose of the AFWLT is to identify, acquire, manage, protect and preserve natural lands and waters that are of environmental or recreational importance. Title to all properties acquired by the AFWLT is vested in the ATF on behalf of the State of Alabama. The AFWLT is under the management and control of a legally established Board of Trustees. The Department of Conservation and Natural Resources serves as the lead management agency with respect to all lands acquired and has the responsibility of providing administrative support to the AFWLT Board.

This report presents the results of an audit the objectives of which were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the ATF and the AFWLT complied with applicable laws and regulations. The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States as well as the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5-14.

An unqualified opinion was issued on the basic financial statements, which means that the ATF and the AFWLT's financial statements present fairly, in all material respects, its financial position and the results of its operations for the fiscal year ended September 30, 2011.

Tests performed during the audit did not disclose any significant instances of noncompliance with applicable state and local laws and regulations.

Mr. Young Boozer, State Treasurer; Mr. N. Gunter Guy, Jr., Commissioner, Department of Conservation and Natural Resources; and Dr. Marquita F. Davis, State of Alabama Director of Finance, were invited to an exit conference held on June 26, 2012. Individuals in attendance were: Mr. Young Boozer; Ms. Daria Story, Assistant State Treasurer; Mr. Edward Dicks, State Treasurer's Office; Mr. Cory Rambo, State Treasurer's Office; Mr. Greg Lein, Department of Conservation and Natural Resources; Ms. Sylvia Livingston, Department of Conservation and Natural Resources; and Ms. Carolyn Middleton, Finance Director's Office, along with Gail Traylor, Bebe Green and James Miller from the Department of Examiners of Public Accounts.



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COMMENTS

**Alabama Trust Fund and the
Alabama Forever Wild Land Trust
October 1, 2010 through September 30, 2011**

Establishment of the Alabama Trust Fund by Amendment 450

The Alabama Trust Fund (ATF) was established in 1985 by *Amendment 450* of the *Alabama Constitution of 1901* as an irrevocable permanent trust fund for the continuing benefit of the State of Alabama and its citizens. All amendments to the *Alabama Constitution of 1901* are required to be ratified by a majority of the voters who choose to vote in the elections where the amendments are on the ballot. The votes must be certified by the Secretary of State before any amendment is ratified and becomes law.

Amendment 450 also provided for the dissolution of the previously established Alabama Heritage Trust Fund in 2001 and required the transfer of the Alabama Heritage Trust Fund capital to the ATF. The Alabama Heritage Trust Fund was previously established in 1982 by *Amendment 394*.

The initial trust capital of the ATF consisted of oil and gas capital payments received as the result of sealed bids awarded on August 14, 1984. *Amendment 450* defined "oil and gas capital payments" as follows: "Any payment (including any royalty payment) received after August 1, 1984, by the state or any agency or instrumentality thereof as all or part of the consideration for the sale, leasing or other disposition by the state or any agency or instrumentality thereof of any right to explore and drill for or to produce oil, gas or other hydrocarbon minerals in any area on the water side of the high water mark of Mobile Bay or in any other offshore area and shall include any revenue by the state from federal oil and gas leases off the coast of Alabama. Any royalty or other payment, with the exception of any taxes...levied, that is based upon or determined with respect to, the production of oil, gas or other hydrocarbon minerals and that is paid to the state or any agency or instrumentality thereof regardless of the time of such payment shall be considered an oil and gas capital payment."

Amendment 450 provided for the ATF to receive 99% of all oil and gas capital payments received after August 14, 1984, and for the Lands Division of the Department of Conservation and Natural Resources to receive 1% of the oil and gas capital payments.

Amendment 450 defined “trust capital” as “all assets of the trust fund other than trust income.” *Amendment 450* defined “trust income” as “the net income received by the state...from the investment and reinvestment of all assets of the trust fund, determined in accordance with the provisions of this amendment.” *Amendment 450* required that the ATF capital be held in perpetual trust and not appropriated or expended or disbursed for any purpose other than to acquire eligible investments. All eligible investments acquired with ATF capital were required to remain part of the ATF capital. *Amendment 450* required any income derived from investments be paid directly to the state General Fund and subject to appropriation by the legislature; however, *Amendment 450* also provided that, beginning in the 1989-1990 fiscal year, 1% of the income from the ATF be reinvested in the ATF, 2% of the income received in the 1990-1991 year be reinvested in the ATF, and that an additional 1% income each subsequent year was to be reinvested in the ATF until a total of 10% of the income each fiscal year was reinvested in the ATF to become trust capital.

The ATF is under the management and control of a Board of Trustees established by *Amendment 450*, and all powers necessary or appropriate for the management and control of the ATF are vested solely in the Board. These provisions in the law have not changed since *Amendment 450* was ratified. The nine member Board of Trustees consists of the Governor, the State Treasurer, the Director of Finance, three Board members appointed by the Governor, two Board members appointed by the Lieutenant Governor, and one Board member appointed by the Speaker of the House of Representatives. Appointed Board members may be reimbursed for actual expenses incurred in the performance of their duties related to the ATF. The Governor, State Treasurer, and the Director of Finance serve as ex officio Board members, and the terms of the ex officio Board members run concurrently with the terms in their respective offices. The term of office for each appointed Board member is six years. The Governor is the chairman and presiding officer of the Board. The Director of Finance is the vice-chairman, and the State Treasurer is the secretary. A majority of the Board members constitutes a quorum for the transaction of business by the Board, and decisions are made on the basis of a majority of the quorum present and voting, with each Board member having a single vote. The Board may appoint such other officers to perform such duties as the Board deems necessary or appropriate.

All proceedings of the Board, except executive sessions, must be recorded in writing and maintained in the permanent records of the Board, a copy of which must be filed in the office of the Board and open for public inspection there during regular business hours. The office of the Board is the office of the Director of Finance, located in the State Capitol building in Montgomery.

To the extent appropriate, the Board utilizes the Office of the State Treasurer in the administration of the ATF, including the keeping of the accounting and investment records, the management of bank accounts, the transfer of funds, and the safekeeping of securities evidencing investments. Also, the Board uses two financial custodians, State Street Bank and Trust Company and Bank of New York Mellon, to safekeep the ATF investments managed by investment professionals. The custodians maintain the investment records for the ATF.

To the extent practicable, the Board must keep all moneys invested in eligible investments to produce the greatest trust income while preserving the ATF capital. The Board has complete discretion in making decisions as to how and when investments are made. The only restriction on the Board pertaining to the investment of ATF moneys is that investments must be made with the same judgment and care that an institutional investor of the highest standard of prudence, intelligence and financial expertise would exercise under the circumstances prevailing at the time, not for the purpose of speculative profit, but for the generation of optimum income while preserving the safety and permanence of the trust.

Changes Made to the Alabama Trust Fund by Subsequent Amendments

Amendment 450 states that “the legislature shall have the right and power to enact laws supplemental to this amendment and in furtherance of the purposes and objectives thereof, provided that such laws are not inconsistent with the express provisions of this amendment.” Beginning in 1988, several laws proposing constitutional amendments that changed several of the provisions of *Amendment 450* were passed by the Legislature and sent to the voters of the State of Alabama for ratification. The amendments that were ratified are summarized below.

Amendment 488

In 1988, *Amendment 488* was ratified to clarify the types of investments that could be made by both the Alabama Trust Fund and the Alabama Heritage Trust Fund. *Amendment 488* also contained the first mention of “capital gains” with the provision that “any capital gains realized from the sale of any investments forming a part of...the Alabama Trust Fund shall become a part of the trust capital of the fund...and shall be subject to all restrictions applicable to the preservation of such trust capital.”

Amendment 543

In 1993, *Amendment 543* created the Alabama Forever Wild Land Trust. Details concerning the Alabama Forever Wild Land Trust are discussed in a following section of this report. The ATF was affected financially by *Amendment 543*. *Amendment 543* modified *Amendment 450* by requiring that beginning in the 1992-1993 fiscal year, “there shall be allocated and paid into the Forever Wild Land Trust the percentage of trust income earned from the Alabama Trust Fund that would have been reinvested in the Alabama Trust Fund” with a phase-in provided as follows: (1) For the 1992-1993 fiscal year, 4% of the ATF income, (2) For the 1993-1994 fiscal year 5% of the ATF income, (3) For the 1994-1995 fiscal year 6% of the ATF income, (4) For the 1995-1996 fiscal year 7% of the ATF income, (5) For the 1996-1997 fiscal year 8% of the ATF income, (6) For the 1997-1998 fiscal year 9% of the ATF income, and (7) for each year thereafter 10% of the ATF income with such transfers not to exceed \$15 million in any one fiscal year.

Amendment 666

Amendment 666 was ratified in 2000. This Amendment made several significant changes to the ATF. First, it redistributed the portion of the oil and gas capital payments (which previously were retained in the ATF as trust capital) so that 35% of the payments would be paid to the County and Municipal Government Capital Improvement Trust Fund and the Alabama Capital Improvement Trust Fund (instead of to the ATF trust capital). Second, it authorized the State of Alabama to issue \$350 million of general obligation bonds, and also appropriated repayment of the bonds from the Alabama Capital Improvement Trust Fund. The amount of general obligation bonds authorized by *Amendment 666* was later increased to \$750 million by *Amendment 796* (see below). Third, *Amendment 666* significantly changed the distribution of the ATF income allocated to the state General Fund (which was previously 90% of total ATF income). Fourth, it provided a legal definition of the terms “realized capital gains” and “unrealized capital gains” and authorized the ATF Board to approve separate distributions of realized capital gains and unrealized capital gains. Details of these significant changes are discussed in the paragraphs below.

As stated above, *Amendment 666* resulted in a major change to the Alabama Trust Fund by redistributing a portion of the oil and gas capital payments received by the ATF (which previously comprised 99% of the total oil and gas capital payments received by the State of Alabama). *Amendment 666* established the County and Municipal Government Capital Improvement Trust Fund and the Alabama Capital Improvement Trust Fund. Beginning on October 1, 2001, 35% of all oil and gas capital payments paid into the ATF in any fiscal year are required to be transferred by the State Treasurer to the special trust funds created by *Amendment 666* in the following manner: (a) an amount equal to 7% of all oil and gas capital payments received by the ATF during the preceding fiscal year must be paid into the County and Municipal Government Capital Improvement Trust Fund; and (b) an amount equal to 28% of all oil and gas capital payments received by the ATF during the preceding fiscal year must be paid into the Alabama Capital Improvement Trust Fund.

Funds in the Alabama Capital Improvement Trust Fund may be appropriated directly for capital improvements. *Amendment 666* further authorized the State of Alabama to become indebted and to sell and issue interest-bearing general obligation bonds, in addition to all other bonds of the State, in an aggregate principal amount not exceeding \$350 million (which was subsequently increased to \$750 million by *Amendment 796*). Money in the Alabama Capital Improvement Trust Fund is also appropriated by *Amendment 666* to pay the bonds authorized above plus any bonds authorized by *Amendments 618, 619, and 620*.

Amendment 666 significantly changed the distribution of the ATF income allocated to the state General Fund (which was previously 90% of total ATF income) now being distributed pursuant to *Amendment 450* and ***Code of Alabama 1975***, Sections 11-29-4 and 11-66-4. When ATF income for any fiscal year exceeds \$60 million, distributions of the ATF income from the portion transferred to the state General Fund are required as follows: 10% to the County Government Capital Improvement Fund and 10% to the Municipal Government Capital Improvement Fund. The Director of Finance shall certify such amounts to the State Comptroller, who shall make the required distributions from the state General Fund not later than April 15 of the following fiscal year. *Amendment 666* also requires that for the fiscal year following the first fiscal year that the Forever Wild Land Trust received \$15 million from ATF income, one-fourth of one percent of the ATF income be allocated to the Alabama Senior Services Trust Fund. This allocation increases each fiscal year by one-fourth of one percent of the ATF income; provided, however, that in no event will ATF income paid to the Alabama Senior Services Trust Fund exceed \$5 million in any one fiscal year.

Amendment 666 also authorized the distribution of capital gains. The ATF Board is authorized to distribute up to 75% of the realized capital gains. According to *Amendment 666*, “realized capital gains” is defined as “gains from the sale or exchange of assets of the Alabama Trust Fund, other than fixed income assets, to the extent they exceed losses from the sale of such assets”. The amount of gain or loss on the sale of an asset shall be determined by subtracting its fair market value as of the end of the immediately preceding fiscal year from the proceeds of selling the asset. The amount distributed, if any, is determined by the ATF Board. *Amendment 666* requires that the amount approved be distributed as follows: 10% to the County Government Capital Improvement Fund (established by the ***Code of Alabama 1975***, Section 11-29-4); 10% to the Municipal Government Capital Improvement Fund (established by the ***Code of Alabama 1975***, Section 11-66-4); and the remainder of such realized capital gains shall be paid into the state General Fund, except that a portion of such realized capital gains shall be distributed in the same manner as and deemed to be a part of ATF income for purposes of the distributions required under Sections 7 and 13 of *Amendment 543*.

In addition, *Amendment 666* authorized the distribution of up to 75% of the unrealized capital gains earned by the ATF. According to *Amendment 666*, “unrealized capital gains” is defined as “the excess of the fair market value of the ATF on the last day of the fiscal year over the fair market value of the Trust Fund on the last day of the immediately preceding fiscal year. The fair market value of the Trust Fund on the last day of a fiscal year shall be determined without including the trust income for the fiscal year, realized capital gains for the fiscal year, or the fair market value of fixed income assets”. The amount distributed, if any, is determined by the ATF Board. *Amendment 666* requires that any unrealized capital gains distributed shall be divided as follows: 10% to the County Government Capital Improvement Fund, and 10% to the Municipal Government Capital Improvement Fund, and the remainder of such unrealized capital gains shall be paid to the General Fund except that a portion of such shall be distributed in the same manner as trust income as mentioned in the above paragraph.

Amendment 668

Amendment 668 was also ratified in 2000. *Amendment 668* appropriated the distributions authorized by *Amendment 666*. In addition, *Amendment 668* provided the State Comptroller with specific allocation guidelines for the annual distributions to the counties and cities from the County Government Capital Improvement Fund and the Municipal Government Capital Improvement Fund.

Amendment 709

In 2002, *Amendment 709* established the Education Trust Fund Rainy Day Account within the Alabama Trust Fund. The Account was authorized to be funded from oil and gas capital payments up to an amount equal to 6% of the Education Trust Fund appropriations for the 2001-2002 fiscal year. The funds in the Account were authorized to be withdrawn only to prevent proration of the appropriations from the Education Trust Fund. The Legislature was required to provide for the replenishment of the account within 5 years. The allocations of oil and gas capital payments to the Alabama Capital Improvement Trust Fund and the County and Municipal Government Capital Improvement Trust Fund were required to be made from the total amount received by the ATF before any allocation was made to the Education Trust Fund Rainy Day Account. *Amendment 709* was completely repealed by *Amendment 803* (see below).

Amendment 796

As discussed above in the section concerning *Amendment 666*, *Amendment 796* increased the amount of bonds authorized in *Amendment 666* from \$350 million to \$750 million. *Amendment 796* also added a competitive bidding requirement for the sale of the bonds and a requirement that contracts for the bond issuance expenses be awarded to businesses and individuals which reflect the racial and ethnic diversity of the State.

Amendment 803

In 2008, *Amendment 803* repealed and replaced *Amendment 709*. *Amendment 803* created within the Alabama Trust Fund the Education Trust Fund Rainy Day Account and the General Fund Rainy Day Account. In any year in which the Governor certifies to the State Comptroller and notifies the Legislature that proration would occur in appropriations from the Education Trust Fund or the State General Fund, the Education Trust Fund Rainy Day Account or the General Fund Rainy Day Account shall be credited with oil and gas capital payments previously transferred into the Alabama Trust Fund in the amount required to fund withdrawals from the accounts of the amounts authorized. The amount withdrawn from the Education Trust Fund Rainy Day Account (ETFRDA) in a fiscal year may not exceed 6.5% of the previous fiscal year's Education Trust Fund appropriations less the total amount of any prior years' withdrawals from the ETFRDA which have not been repaid to the ETFRDA. The amount withdrawn from the General Fund Rainy Day Account (GFRDA) in a fiscal year may not exceed ten percent of the previous fiscal year's General Fund appropriations less the total amount of any prior years' withdrawals from the GFRDA which have not been repaid to the GFRDA. Beginning in the 2008-2009 fiscal year, withdrawals from the ETFRDA and the GFRDA shall be limited to an amount necessary to reach the average of the estimated available revenue for each Fund which is to be certified by the Finance Director and the Legislative Fiscal Officer prior to the third legislative day of each Regular Session.

Funds from the ETRDA or the GFRDA may be withdrawn only to prevent proration of the appropriations from the Education Trust Fund or the General Fund. In the event funds are withdrawn from the ETRDA or the GFRDA, an additional amount equal to twenty-five percent of the Education Trust Fund or the General Fund transfer amount shall be transferred from the Alabama Trust Fund to the County and Municipal Government Capital Improvement Trust Fund. The Legislature must replenish the accounts within six years after withdrawal of any funds from the ETRDA and within ten years after withdrawal of any funds from the GFRDA; however, the amounts transferred to the County and Municipal Government Capital Improvement Trust Fund are not required to be replenished.

The allocations of oil and gas capital payments authorized by *Amendment 666* to the Alabama Capital Improvement Trust Fund and the County and Municipal Government Capital Improvement Trust Fund are in addition to the transfers authorized by *Amendment 803* and are required to be made from the total amount received by the ATF before any allocation is made to the ETRDA or the GFRDA.

Changes Made to the Alabama Trust Fund by Official Opinions of the Attorney General

The Alabama Constitution specifically calls upon the Attorney General to issue official opinions about state law. Public officials may, upon written request, ask the Attorney General to give his legal interpretation of the law. According to the official website of the Office of the Attorney General, “opinions of the Attorney General are advisory in nature and not binding. They are, however, entitled to great weight and may constitute persuasive authority. The written opinion of the Attorney General secured by a public official protects the officer or members of the board or agency from liability because of any official act or acts performed as directed or advised in such opinion.” The Attorney General has issued several official opinions concerning the ATF since the ratification of *Amendment 450* in 1985. These opinions are summarized below in chronological order. The two most recent opinions, *Opinion Number 2010-098* and *Opinion Number 2011-025*, discussed below, will result in a significant financial impact on the ATF.

Opinion Number 86-239 issued on May 1, 1986 addressed the topic of realized capital gains from ATF assets and whether such gains should be distributed to the state General Fund or be retained in the trust corpus. The Attorney General opined that realized capital gains were not trust income as defined by *Amendment 450* and such gains should remain in the trust corpus.

Opinion Number 2000-006 issued on October 7, 1999 permitted the ATF Board to allow investment managers to deduct their fees from the income earned on such investments before the net income is paid to the ATF.

Opinion Number 2004-042 issued on December 18, 2003 and *Opinion Number 2004-081* issued on February 26, 2004 interpreted the phrase “within 30 days following the end of each fiscal year,” as used in Section III(b) of *Amendment 666*. The Attorney General opined that the phrase is directory and not mandatory. Thus, the ATF Board may transfer funds under section III(b) after 30 days following the end of each fiscal year provided that the ATF Board does not delay action to the extent that it presents a potential waiver of its authority to do so.

Opinion Number 2005-027 issued on December 6, 2004 interpreted Sections III(b) and (c) of *Amendment 666*, stating that the ATF Board may transfer **any percentage up to** 75 percent of the capital gains of the ATF for the fiscal year. This opinion also stated that auditors hired by the ATF Board to perform audits of companies extracting oil and gas from state-owned property must be paid from funds appropriated by the Legislature, not by ATF income.

Opinion Number 2006-152 issued on September 26, 2006 addressed issues concerning the income and distribution of funds from the ATF as required by *Amendment 666*. First, this opinion states that realized and unrealized gains are included in the definition of trust income to determine the maximum amount of the \$15 million transferable to the Alabama Forever Wild Land Trust. Second, this opinion states that if the 10% allocated to the Alabama Forever Wild Land Trust exceeds the \$15 million transfer amount, the excess should be reinvested in the ATF. Third, this opinion states that the annual allocation to the Alabama Senior Services Trust Fund is not contingent upon the Alabama Forever Wild Land Trust receiving \$15 million each year. Fourth, this opinion states that “trust income” is defined in the amendments and statutes as excluding income that becomes part of the trust capital of the ATF. As such, trust income required to be reinvested in the ATF corpus will not be considered as part of trust income for distribution to the various entities. Fifth, this opinion states that upon cessation of distributions to the Alabama Forever Wild Land Trust, the portion of unrealized and realized capital gains that were distributed to it should be reinvested in ATF as trust capital.

Opinion Number 2008-046 issued on January 31, 2008 and **Opinion Number 2010-060** issued on April 19, 2010 both address whether certain monies received by the State of Alabama constituted oil and gas capital payments due to the ATF. **Opinion Number 2008-046** stated that interest penalties and post-judgment interest imposed upon Exxon Mobil Corporation pursuant to the litigation were not oil and gas capital payments due to the ATF. **Opinion Number 2010-060** stated that payments under a natural gas storage lease negotiated by the Department of Conservation and Natural Resources were not oil and gas capital payments due to the ATF.

Opinion Number 2010-098 issued on August 24, 2010 addressed several questions for the State Treasurer. At issue was the accounting method used by the Office of the State Treasurer to calculate realized capital gains. It was determined by the Attorney General that the Office of the State Treasurer had not performed the calculation to comply with *Amendment 666*. As a result, the amounts reported by the State Treasurer to the ATF Board as being available for several distributions were incorrect. The Attorney General opined that the ATF Board should transfer the amount of the difference, up to the maximum, that should have been transferred in previous years as soon as reasonably possible. The Office of the State Treasurer immediately began preparing a recalculation of the realized capital gains in compliance with *Amendment 666*.

Opinion Number 2011-025 issued on January 5, 2011 addressed questions from the State Treasurer again concerning the subject of capital gains. At issue in this opinion were the previous calculations performed by the Office of the State Treasurer and provided to the ATF Board; these calculations did not include the oil and gas capital payments in the calculation of “unrealized capital gains”. According to the Attorney General, *Amendment 666* “altered the distribution of income and capital incomes earned” by the ATF. **Opinion Number 2011-025** states that *Amendment 666* defines “unrealized capital gains” as follows: “The excess of the fair market value of the Alabama Trust Fund on the last day of the fiscal year over the fair market value of the Trust Fund on the last day of the immediately preceding fiscal year. The *fair market value* of the Trust Fund on the last day of a fiscal year *shall be determined without including the Trust Income* for the fiscal year; *realized capital gains* for the fiscal year; or the fair market value of *fixed income assets*.” **Opinion Number 2011-025** states that *oil and gas capital payments are not included among the three exclusions emphasized above*. **Opinion Number 2011-025** recommended that appropriate recalculation and payment of the difference be performed in the same manner as that recommended in **Opinion Number 2010-098**. The result of **Opinion Number 2011-025** is that oil and gas capital payments could be subject to distribution as any other income of the ATF. The Office of the State Treasurer immediately began preparing a recalculation of the unrealized capital gains in compliance with *Amendment 666* to include the oil and gas capital payments.

The recalculations described above were prepared by the Office of the State Treasurer. They were verified by the Department of Examiners of Public Accounts. As a result of the opinions of the Attorney General and the recalculations, the additional amounts to be distributed from capital gains from previous fiscal years are presented on the following table:

To Be Distributed	FY2003	FY2004	FY2005	FY2006	FY2007	Total
70% General Fund	\$31,904,968	\$ 80,417,110	\$39,856,421	\$113,698,694	\$494,033	\$266,371,226
10% FWLT (*)	1,850,805	1,337,776	0	0	0	3,188,581
10% Counties	4,557,853	11,488,159	5,693,774	16,242,671	70,576	38,053,033
10% Cities	4,557,853	11,488,159	5,693,774	16,242,671	70,576	38,053,033
ATF (*)	2,707,048	10,150,383	5,693,774	16,242,671	70,576	34,864,452
Total	<u>\$45,578,527</u>	<u>\$114,881,587</u>	<u>\$56,937,743</u>	<u>\$162,426,707</u>	<u>\$705,761</u>	<u>\$380,530,325</u>

(*) When the FWLT distribution exceeds \$15 million in any one year, the FWLT amount in excess of \$15 million reverts to the ATF. FWLT previously received the following income and capital gains for the above years: FY03 \$13,149,195; FY04 \$13,662,224; FY05 \$15,000,000; FY06 \$15,000,000; FY07 \$15,000,000.

ATF Financial Statements

The State Treasurer maintains the accounting records for the Alabama Trust Fund. The Alabama Trust Fund has been audited annually as required by *Amendment 450* by the State of Alabama Department of Examiners of Public Accounts and also by several public accounting firms. The financial statements included in this report are presented in compliance with Generally Accepted Accounting Principles (GAAP) applicable to the fund classification required by the Governmental Accounting Standards Board, and those statements were audited to determine whether those principles have been followed. The ATF was presented in the audited financial statements as a permanent trust fund until 2003; however, the legal requirements and language included in *Amendment 666* and subsequent opinions of the Attorney General resulted in transactions that do not conform to GAAP for permanent trust funds.

The calculations described in the previous section of this report are prepared only for the purpose of authorizing distributions of capital gains in compliance with *Amendment 666* and the related Opinions of the Attorney General. The amounts calculated for constitutional purposes do not, and are not intended to agree with the amounts reported for investment income (which includes all capital gains, net of losses, and other income from all investments) in the financial statements prepared in compliance with GAAP.

The significant changes in *Amendment 666* and resulting subsequent distributions of unrealized capital gains on certain investments resulted in distributions of part of the trust corpus, or trust capital. This situation required the State of Alabama to reclassify the fund type for the ATF financial statements in order to comply with Generally Accepted Accounting Principles (GAAP). The ATF is no longer reported as a permanent trust fund in the financial statements of the State of Alabama prepared in compliance with GAAP. The ATF is currently reported in the financial statements of the State of Alabama as a special revenue fund instead of a permanent trust fund.

Alabama Forever Wild Land Trust

The Alabama Forever Wild Land Trust (AFWLT) was established and operates under the authority of *Amendment 543* of the ***Alabama Constitution of 1901***. The purpose of the AFWLT is to identify, acquire, manage, protect and preserve natural lands and waters that are of environmental or recreational importance. Title to all properties acquired by the AFWLT is vested in the ATF on behalf of the State of Alabama. The Department of Conservation and Natural Resources serves as the lead management agency with respect to all lands acquired and has the responsibility of providing administrative support to the AFWLT Board.

The Board of Trustees of the AFWLT consists of 15 voting members. There are three ex officio members as follows: the Commissioner of the Department of Conservation and Natural Resources, who also serves as the Chairman of the Board; the State Forester; and the Executive Director of the Marine Environmental Sciences Consortium. Three members are professional biologists appointed by the Alabama Commission on Higher Education from the academic departments of biology, zoology, environmental sciences and wildlife science from eligible four-year institutions of higher education in Alabama, located in three geographical districts defined in *Amendment 543*.

Nine additional members are appointed from the three geographical regions of the state as follows:

- One member from the Northern District is appointed by the Governor, one member from the Central District is appointed by the Speaker of the House of Representatives, and one member from the Southern District is appointed by the Lieutenant Governor, from a list of names presented by non-profit organizations, each having its principal programs extending generally throughout the state, whose demonstrated primary concerns are environmental protection for the state and its citizens and non-consumptive use and preservation of natural areas, and whose membership exceeds 750 individual residents of Alabama, including but not limited to, the Nature Conservancy of Alabama, the Alabama Audubon Council (comprising the chapters in Alabama of the National Audubon Society), the Alabama Conservancy, the Alabama Chapter of the Sierra Club, and their respective successor organizations.
- One member from the Northern District is appointed by the Lieutenant Governor, one member from the Central District is appointed by the Governor, and one member from the Southern District is appointed by the Speaker of the House of Representatives, from a list of names presented by business, industry, trade associations and professional organizations, each having its principal programs extending generally throughout the state, and having a demonstrated concern for balancing economic growth with protection for the environment and increased recreational opportunities, including but not limited to, the Business Council of Alabama, the Alabama Forestry Association, the Alabama Forest Resources Center, the Alabama Farmers Federation, the Petroleum Council of Alabama, the Association of County Commissions of Alabama, and their respective successor organizations.
- One member from the Northern District is appointed by the Speaker of the House of Representatives, one member from the Central District is appointed by the Lieutenant Governor, and one member from the Southern District is appointed by the Governor, from a list of names presented by non-profit organizations, each having its principal programs extending generally throughout the state, whose demonstrated primary purposes are to promote hunting, fishing, camping or other compatible recreational activities or conservation for such purposes, and whose membership exceeds 750 individual residents of Alabama, including but not limited to, the Alabama Wildlife Federation, the Alabama State Advisory Council of Ducks Unlimited, the Bow Hunters of Alabama Inc., the Coastal Land Trust, Inc., the Gulf Coast Conservation Association, the Tennessee Valley Waterfowl Association, the Alabama Rifle and Pistol Association, the Alabama Chapter of the Safari Club International (whether or not those named organizations meet the membership requirement), and their respective successor organizations.

Other organizations may become qualified as recommending organizations by filing information with the Secretary of State as set forth in *Amendment 543*. The nine appointed members serve six-year terms and may not serve consecutive six-year terms. Each person appointed to the Board must be and remain Alabama residents, and must have a demonstrated knowledge of and commitment to land acquisition for the purposes of conservation and recreation.

The Board is required to meet at least quarterly each year for the transaction of its business and to review the progress of the AFWLT, to review written requests from state agencies, private organizations, and private citizens proposing that certain properties or interests therein be acquired. For purposes of establishing a quorum, there must be present at least three-fifths of the members of the Board then in office at any Board meeting in order to conduct business. In the absence of a quorum, the members may present by majority vote to adjourn the meeting from time to time until a quorum shall attend. Any Board action or recommendation must be approved by at least three-fifths of the members of the entire Board then in office, unless specified otherwise in *Amendment 543*.

The Board is authorized at its discretion to recommend that moneys paid into the AFWLT be allowed to accumulate, with only the income thereon being spent, or that the principal of the AFWLT be expended in whole or in part.

Amendment 543 established a Final Approval Committee to be composed of the Governor, the Lieutenant Governor and the Speaker of the House of Representatives. The Board must submit to the Final Approval Committee a written proposal of the purchase, lease, sale or acquisition of any interest in property before the transaction is executed. The proposal must include a legal description of the property to be purchased, leased or sold; the proposed purchase, lease or sale price; and any additional terms of the sale, purchase, lease or other interest therein.

Before purchasing or acquiring any interest in lands with money from the AFWLT, the Board, acting through the Commissioner of the Department of Conservation and Natural Resources, or the Commissioner on his own initiative, must obtain at least two appraisals from certified real estate appraisers. The Board may not expend more than the "appraised value" as defined in Section 2 of *Amendment 543* in purchasing lands, except by affirmative vote of at least three-fourths (3/4) of the members of the Board, upon which the Board may expend up to 125% of the appraised value for a purchase where such action is necessary to accomplish the purposes and goals of *Amendment 543*.

The Board may assume indebtedness on behalf of the AFWLT that may be owed with respect to real or personal property given, donated, contributed or devised to the AFWLT, or that may be secured by a mortgage, deed of trust or security interest covering such property, and the Board may agree to pay such indebtedness from current assets or future revenues of the AFWLT; provided that the present value of all installments of principal and interest on such indebtedness at the time of the assumption thereof, determined in accordance with accepted principles and using a discount rate equal to the rate of interest payable on such indebtedness, is less than 80% of the fair market value of such property as determined by an active public market for such property or an appraisal performed by an independent, professionally qualified appraiser. The Board may contract for the purchase of tracts or parcels of land in which the purchase price is payable in future installments, with a reasonable rate of interest, and it may secure the payment of such installments, provided that the payments do not exceed 80% of the fair market value of the property and that the total outstanding debt is no more than 25% of the trust income for the preceding year.

The Board may sell, lease or exchange specific lands or interest therein acquired by the AFWLT or held by the ATF. Any such sale or exchange may not be made at less than the “appraised value” as defined in Section 2 of *Amendment 543* except by affirmative vote of at least three-fourths of the members of the Board, the Board may authorize and direct the Commissioner to sell or exchange property for not less than 85% of the appraised value where such action is necessary to accomplish the purposes and goals of *Amendment 543*. All moneys received from any such sale or lease must be paid into the AFWLT.

Title to all property acquired by the AFWLT is vested in the ATF on behalf of the State of Alabama. However, the ATF Board does not have any responsibility for nor any control over the approving or disapproving of the acquisition, disposition or use of any such property. Nothing in *Amendment 543* or *Amendment 450* requires the ATF Board to have a fiduciary responsibility for the investment of AFWLT funds or the production of income from property acquired by the AFWLT.

The Board and the Department of Conservation and Natural Resources must develop and maintain an inventory of areas and sites, which through acquisition by the Trust become state natural and recreational areas, and provide information to the public regarding their location, management, regulation, and permissible public uses.

The *Alabama Constitution of 1901*, *Amendment 543* also requires the Board to establish a separate account within the ATF to be known as the AFWLT Stewardship Account. When the AFWLT acquires property or an interest in property pursuant to *Amendment 543*, the Board of Trustees of the AFWLT must set aside an amount from the AFWLT equal to 15% of the appraised value of the land acquired, or the land affected if less than a fee interest was acquired. The ATF Board invests the funds deposited in the Stewardship Account. The Board of Trustees of the AFWLT may authorize the Department of Conservation and Natural Resources to expend any interest income generated from the investment of funds within the Stewardship Account. The Commissioner of the Alabama Department of Conservation and Natural Resources must notify the AFWLT Board of Trustees in writing if he determines that the interest income projected to be generated from the Stewardship Account for the next fiscal year will be insufficient to properly manage property acquired by the AFWLT. If that occurs, the AFWLT Board of Trustees may authorize by a three-fifths vote that the principal of the Stewardship Account be expended by the Department of Conservation and Natural Resources for management purposes for the next fiscal year, provided that funds from the principal within the Stewardship Account may not be expended to purchase additional property or interests therein.

Transfers Made from the Alabama Trust Fund

The ATF transferred 90% of ATF income for the five preceding fiscal years as follows:

Fiscal Year	Counties and Cities (**)	Senior Services Trust Fund	General Fund	Total Transferred (*)
2010-2011	\$20,278,759	\$1,013,938	\$63,058,014	\$ 84,350,711
2009-2010	\$25,895,921	\$ 971,097	\$64,387,397	\$ 91,254,415
2008-2009	\$22,329,092	\$ 558,227	\$93,644,804	\$116,532,123
2007-2008	\$22,652,068	\$ 283,151	\$88,320,907	\$111,256,126
2006-2007	\$22,260,506	N/A	\$80,991,166	\$103,251,672

(*) This amount refers to 90% of the ATF income. The remaining 10% of ATF income, up to \$15 million, is transferred to the Alabama Forever Wild Land Trust (see chart below).

(**) "Counties and Cities" refers to the County Government Capital Improvement Fund and the Municipal Government Capital Improvement Fund.

The ATF transferred 10% of ATF income to the Alabama Forever Wild Land Trust for the past five fiscal years as follows:

Fiscal Year	Investment Income Transferred	Capital Gains Realized/Unrealized Transferred (***)	Total Transferred
2010-2011	\$ 6,986,959	\$ 8,013,041	\$15,000,000
2009-2010	\$10,139,379	\$ 0	\$10,139,379
2008-2009	\$12,948,014	\$ 0	\$12,948,014
2007-2008	\$ 389,335	\$14,610,665	\$15,000,000
2006-2007	\$10,002,960	\$ 4,997,040	\$15,000,000

(***) The ATF had unrealized and realized capital losses in the 2007-2008 and the 2008-2009 fiscal years; therefore, no capital gains were distributed during the 2008-2009 fiscal year or the 2009-2010 fiscal year.

The ATF's transfers of oil and gas capital payments to the Alabama Capital Improvement Trust Fund and the County and Municipal Government Capital Improvement Trust Fund for the past five fiscal years were as follows:

Fiscal Year	Alabama Capital Improvement Trust Fund	County and Municipal Capital Improvement Trust Fund	Total Transferred
2010-2011	\$ 34,476,909	\$ 8,619,227	\$ 43,096,136
2009-2010	\$ 49,313,394	\$12,328,349	\$ 61,641,743
2008-2009	\$ 96,664,818	\$24,166,205	\$120,831,023
2007-2008	\$ 71,699,238	\$17,924,809	\$ 89,624,047
2006-2007	\$103,431,238	\$25,857,809	\$129,289,047

OTHER COMMENTS

Funds Used to Account for the Trusts

The ATF and the AFWLT operate from three funds maintained in the State Treasury. Fund 0464 is used to account for the ATF. Fund 0747 is used to account for the AFWLT Stewardship Account. Fund 0746 is used to account for the AFWLT.

Offshore Production Forecasts

The State Oil and Gas Board of Alabama/Geological Survey of Alabama provided the ATF Board with an offshore natural gas production report, which includes the current status and future outlook of offshore production. This report states that natural gas production is in a natural state of decline, which is characteristic of maturing fields. Its analysis indicates that under an optimal development scenario, production will extend through fiscal year 2032.

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Independent Auditor's Report

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities of the Alabama Trust Fund and the Alabama Forever Wild Land Trust, as of and for the year ended September 30, 2011, which collectively comprise the basic financial statements of the Alabama Trust Fund and the Alabama Forever Wild Land Trust as listed in the table of contents as Exhibits 1 and 2. These financial statements are the responsibility of the Alabama Trust Fund's and the Alabama Forever Wild Land Trust's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements present only the Alabama Trust Fund and the Alabama Forever Wild Land Trust and do not purport to, and do not, present fairly the financial position of the reporting entity of the State of Alabama, as of September 30, 2011, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Alabama Trust Fund and the Alabama Forever Wild Land Trust, as of September 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Alabama Trust Fund and the Alabama Forever Wild Land Trust implemented GASB Statement Number 54, ***Fund Balance Reporting and Governmental Fund Type Definitions***, fiscal year ended September 30, 2011. This resulted in a change in the format and method of reporting fund balance in the basic financial statements

In accordance with ***Government Auditing Standards***, we have also issued our report dated June 26, 2012 on our consideration of the Alabama Trust Fund's and the Alabama Forever Wild Land Trust's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** and should be considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

June 26, 2012

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Management's Discussion and Analysis
(Required Supplementary Information)

Management's Discussion and Analysis For the Year Ended September 30, 2011

This section of the Alabama Trust Fund's (ATF) annual financial report presents a discussion and analysis of the trust fund's financial activities during the fiscal year that ended on September 30, 2011. The financial statements include the Alabama Forever Wild Land Trust Fund (AFWLT) and the Alabama Forever Wild Land Trust Stewardship Account (AFWLT Stewardship) which are managed and administered by the Department of Conservation and Natural Resources. This information should be considered in conjunction with the financial statements, related notes and supplementary information.

The ATF and AFWLT are component units of the State of Alabama and classified as a governmental fund. As a special revenue fund, the ATF's resources are legally restricted to expenditure for specified purposes. The AFWLT and AFWLT Stewardship are also classified as special revenue funds and used for the acquisition, maintenance and protection of unique lands and water areas.

Financial Statements and Required Supplementary Information

The financial statements include the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance. The Notes to the Financial Statements are considered an integral part of the financial statements. The statements are prepared using the modified accrual basis of accounting. Revenues are recognized in the period they become available and measurable, and expenditures are recognized in the period in which the liability is incurred.

Balance Sheet – includes all assets and liabilities of the ATF, AFWLT and AFWLT Stewardship and the fund balances as of the end of the fiscal year. Assets less liabilities equals fund balances. Assets include cash and cash equivalents, accounts receivable, investments, due from other funds, investment sales receivable, interest receivable, and securities lending collateral. Liabilities are primarily payables related to the purchase of investments and amounts due to other state funds, along with the securities lending obligations.

Statement of Revenues, Expenditures and Changes in Fund Balance – provides all revenues, expenditures and transfers of the ATF, AFWLT and AFWLT Stewardship for the fiscal year. Revenues include investment income, federal grants, net royalties, and changes in fair value of investments. Expenditures are made up of operating expenses. Transfers to and from other state funds are also included.

The Notes to the Financial Statements include a summary of significant accounting policies, description of investment securities including credit risk, land allocations, and subsequent events.

Comparative Summary Statements

**Alabama Trust Fund
Summary Comparative Balance Sheet
As of September 30, 2011 and 2010
(Amounts in Thousands)**

	2011	2010	Variance	% Increase (Decrease)
ASSETS				
Cash and Cash Equivalents	\$ 43,379	\$ 52,710	\$ (9,331)	(17.70%)
Investment Sales Receivable	70,479	144,224	(73,745)	(51.13%)
Investments	2,548,367	2,522,278	26,089	1.03%
Due from Other Funds	598,957	599,484	(527)	(0.09%)
Accounts Receivable	19,647	16,459	3,188	19.37%
Interest Receivable	20,555	23,194	(2,639)	(11.38%)
Securities Lending Collateral	118,511	172,242	(53,731)	(31.20%)
TOTAL ASSETS	<u>3,419,895</u>	<u>3,530,591</u>	<u>(110,696)</u>	<u>(3.14%)</u>
LIABILITIES AND FUND BALANCE				
Liabilities				
Investment Purchases Payable	171,184	224,535	(53,351)	(23.76%)
Accounts Payable	158	172	(14)	(8.14%)
Due to Other Funds	48	-	48	-
Securities Lending Obligation	118,511	172,242	(53,731)	(31.20%)
Deferred Revenue	3,392	4,056	(664)	(16.37%)
Total Liabilities	<u>293,293</u>	<u>401,005</u>	<u>(107,712)</u>	<u>(26.86%)</u>
Fund Balance				
Restricted/Reserved for:				
Encumbrances	-	133	(133)	(100.00%)
Forever Wild Stewardship Account	28,233	24,798	3,435	13.85%
Restricted/Reserved for Trust Capital	3,032,589	3,061,559	(28,970)	(0.95%)
Restricted/Reserved for Distribution	65,780	43,096	22,684	52.64%
Total Fund Balance	<u>3,126,602</u>	<u>3,129,586</u>	<u>(2,984)</u>	<u>(0.10%)</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 3,419,895</u>	<u>\$ 3,530,591</u>	<u>\$ (110,696)</u>	<u>(3.14%)</u>

Comparative Summary Statements – Continued

Alabama Trust Fund
Summary Comparative Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Years Ended September 30, 2011 and 2010
(Amounts in Thousands)

	2011	2010	Variance	% Increase (Decrease)
REVENUES				
Investment Income	\$ 97,380	\$ 256,476	\$ (159,096)	(62.03%)
Other Revenues	119,716	125,132	(5,416)	(4.33%)
Total Revenues	<u>217,096</u>	<u>381,608</u>	<u>(164,512)</u>	(43.11%)
EXPENDITURES				
Natural Resources and Recreation	891	400	491	122.75%
General Government	5,826	5,715	111	1.94%
Total Expenditures	<u>6,717</u>	<u>6,115</u>	<u>602</u>	9.84%
Excess (Deficiency) of Revenues Over (Under) Expenditures	210,379	375,493	(165,114)	(43.97%)
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	1,201	6,104	(4,903)	(80.32%)
Operating Transfers Out	(214,564)	(203,427)	(11,137)	5.47%
Total Other Financing Sources (Uses)	<u>(213,363)</u>	<u>(197,323)</u>	<u>(16,040)</u>	8.13%
NET CHANGE IN FUND BALANCE	(2,984)	178,170	(181,154)	(101.67%)
FUND BALANCE, OCTOBER 1	<u>3,129,586</u>	<u>2,951,416</u>	<u>178,170</u>	6.04%
FUND BALANCE, SEPTEMBER 30	<u><u>\$ 3,126,602</u></u>	<u><u>\$ 3,129,586</u></u>	<u><u>\$ (2,984)</u></u>	(0.10%)

Financial Analysis for the Alabama Trust Fund

- Cash and Cash Equivalents decreased by \$ 9.3 million. The cash at year end September 30, 2011 and 2010 included oil and gas capital payments pending distribution on October 1, 2011 and October 1, 2010, respectively, to the Alabama Capital Improvement Trust Fund and the County and Municipal Government Capital Improvement Trust Fund as mandated by Amendment 666. Amendment 666 directs the Alabama Trust Fund Board of Trustees to transfer 35% of the oil and gas capital payments received in each fiscal year to the Alabama Capital Improvement Trust Fund (28%) and the County and Municipal Government Capital Improvement Trust Fund (7%) on October 1. The portion due to these trust funds decreased by \$1.6 million. This decrease in amount due is the result of a decrease in oil and gas payments received during fiscal year 2011. The remaining difference is reflective of a decrease in cash and short-term investments held by the ATF and the FWLT Stewardship.

- Investment Sales Receivable is the amount due to be paid to the Alabama Trust Fund on the sale of investments and fluctuates based on active investment management of the portfolios. At fiscal year end, the receivable for fiscal year 2011 was \$70.5 million as compared to \$144.2 million in fiscal year 2010.
- Investments of the ATF include fixed income securities, real estate, and equity securities, pending trades, TBAs, and derivatives. Investments increased by \$26.1 million. Increases and decreases in investments are attributable to changes in fair value, realized capital gains, new oil and gas capital payments received during the year, and transfers that require the liquidation of investments. A decrease in the change of fair value of \$149.9 million was offset by realized gains of \$51.6 million and \$119.7 million in new oil and gas payments received during the year.
- Due from Other Funds is the amount due from the Education Trust Fund and General Fund for withdrawals made from the Rainy Day accounts, and any amounts due to the AFWLT Stewardship. Amendment 803 directs that the Legislature must replenish the Education Rainy Day account within six years (fiscal year 2015) after withdrawal of any funds and the General Fund Rainy Day account within ten years (fiscal year 2020) after withdrawal of any funds.
- Accounts Receivable includes the oil and gas capital payments received by the ATF within sixty days of the close of the fiscal year. The royalties accrued for fiscal year 2011 were \$19.6 million whereas the royalties accrued for fiscal year 2010 were \$16.5 million. These capital payments are based on production and price of natural gas.
- Both Securities Lending Collateral and Securities Lending Obligation represent the balances as of September 30th of each year. The collateral asset and obligation liability decreased by \$53.7 million due to the value of securities loaned as of fiscal year end.
- Investment Purchases Payable represents the liability for the purchase of investments which were recorded as of fiscal year end, but for which payment has not been made. In fiscal year 2010 this liability was \$224.5 million. In fiscal year 2011, this obligation decreased to \$171.2 million.
- Accounts Payable includes amounts owed as of September 30th. This balance represents amounts owed by the AFWLT Stewardship.
- Deferred Revenues is accrued revenue expected to be received December through March each year. Interest generated by fixed income investments accounts for the deferred revenues, since dividends are not generally declared more than two months in advance. Interest deferred at the end of fiscal year 2011 decreased from the amount due for this same period in 2010.

- The Reserve for Distribution includes amounts due for the transfer of oil and gas capital payments, income received by the ATF that has not been distributed, and amounts reserved for the distribution of gains. Amendment 666 mandates that 35% of oil and gas payments received in a fiscal year be distributed to other trust funds on the first day of the next fiscal year. Amendment 666 also allows for the distribution up to 75% of the realized and unrealized capital gains. The \$22.7 million increase in the reserve for distribution is the result of a change in accounting standards and the reservation for the distribution of gains. In previous years no reservation was made for the income received by the trust fund that had not been distributed. These increases were slightly offset by the decrease in the amount of oil and gas capital payments received in fiscal year 2011.
- Investment Income consists of interest and dividends generated by the ATF, change in fair value of the investments from the prior period and realized gains and losses. Realized gains for the ATF increased by \$2 million from fiscal year 2010 to fiscal year 2011; but the increase was reduced by a decrease in the change in fair value of \$150 million, and a decrease in other investment income from \$109.3 million in fiscal year 2010 to \$98.2 million in fiscal year 2011.
- Other revenues represent the oil and gas capital payments received by the ATF from the production of natural gas in Alabama's offshore waters. Oil and gas payments fluctuate from year to year based on production and price. Payments decreased by \$5.4 million in fiscal year 2011 as compared to fiscal year 2010.
- General Government expenditures include securities lending rebate expenses, other professional fees and investment management fees. Management fees increased from \$5.4 million in fiscal year 2010 to \$5.7 million in fiscal year 2011 due to increases in market value during the year but were offset by a decrease in securities lending rebate expenses and other professional fees of \$.2 million.
- Operating Transfers Out includes the oil and gas capital payments distributed to the other trust funds, the distribution of gains on equities, income transferred to the General Fund and the AFWLT, and the 25% distribution to the County and Municipal Government Capital Improvement Trust Fund (CMGCITF) on withdrawals from the Rainy Day accounts. The amount transferred out in fiscal year 2011 increased by \$11.1 million. The transfer of oil and gas capital payments in fiscal year 2011, decreased by \$18.5 million compared to fiscal year 2010. Income transferred to the General Fund and Forever Wild Land Trust decreased by \$10.1 million in fiscal year 2011 due to the decrease in interest and dividends earned during fiscal year 2011. In addition, in fiscal year 2011 there were no transfers to the CMGCITF due to the General Fund Rainy Day Account withdrawals as compared to \$40.4 million in fiscal year 2010. These decreases in operating transfers were offset by the \$80.1 million distribution of gains on equities during fiscal year 2011.

Comparative Summary Statements

**Alabama Forever Wild Land Trust
Summary Comparative Balance Sheet
As of September 30, 2011 and 2010
(Amounts in Thousands)**

	2011	2010	Variance	% Increase (Decrease)
ASSETS				
Cash and Cash Equivalents	\$ 373	\$ 10,544	\$ (10,171)	(96.46%)
Mutual & Money Market Funds - ST (Investments)	13,464	-	13,464	
Due from Other Government	-	24	(24)	(100.00%)
TOTAL ASSETS	13,837	10,568	3,269	30.93%
LIABILITIES AND FUND BALANCE				
Liabilities				
Warrants Payable	1	3,517	(3,516)	(99.97%)
Due to Other Funds	-	528	(528)	(100.00%)
Accounts Payable	62	3	59	1966.67%
Due to Other Governments	-	21	(21)	(100.00%)
Total Liabilities	63	4,069	(4,006)	(98.45%)
Fund Balance				
Restricted for Natural Resources and Recreation	13,774	6,499	7,275	111.94%
Total Fund Balance	13,774	6,499	7,275	111.94%
TOTAL LIABILITIES AND FUND BALANCE	\$ 13,837	\$ 10,568	\$ 3,269	30.93%

Comparative Summary Statements - Continued

Alabama Forever Wild Land Trust
Summary Comparative Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Years Ended September 30, 2011 and 2010
(Amounts in Thousands)

	2011	2010	Variance	% Increase (Decrease)
REVENUES				
Licenses, Permits, and Fees	\$ 191	\$ 245	\$ (54)	(22.04%)
Investment Income	28	15	13	86.67%
Federal Grants and Reimbursements	1,758	2,314	(556)	(24.03%)
Total Revenues	<u>1,977</u>	<u>2,574</u>	<u>(597)</u>	(23.19%)
EXPENDITURES				
Natural Resources and Recreation	<u>8,678</u>	<u>38,538</u>	<u>(29,860)</u>	(77.48%)
Total Expenditures	<u>8,678</u>	<u>38,538</u>	<u>(29,860)</u>	(77.48%)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(6,701)	(35,964)	29,263	(81.37%)
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	15,640	10,139	5,501	54.26%
Operating Transfers Out	(1,664)	(6,531)	4,867	(74.52%)
Total Other Financing Sources (Uses)	<u>13,976</u>	<u>3,608</u>	<u>10,368</u>	287.36%
NET CHANGE IN FUND BALANCE	7,275	(32,356)	39,631	(122.48%)
FUND BALANCE, OCTOBER 1	<u>6,499</u>	<u>38,855</u>	<u>(32,356)</u>	(83.27%)
FUND BALANCE, SEPTEMBER 30	<u><u>\$ 13,774</u></u>	<u><u>\$ 6,499</u></u>	<u><u>\$ 7,275</u></u>	111.94%

Financial Analysis – Alabama Forever Wild Land Trust

- In 2011, Cash and Cash Equivalents decreased 96.46% due to changes in investment type.
- Due from Other Governments decreased by \$24 thousand due to fewer Tag sales for fiscal year 2011.
- Warrants Payable decreased \$3.516 million due to no outstanding land acquisitions at year-end.
- Due to Other Funds decreased 100.00% due to no outstanding land acquisitions at year-end.
- Accounts Payable increased by \$59 thousand due to year-end operating expenditures being due to outside public entities or individuals.

- Due to Other Governments decreased by \$21 thousand due to no payments due to Federal, City, or County entities.
- Fund Balance increased by 111.94% due to fewer major land acquisitions and operating transfers out during fiscal year 2011.
- Licenses, Permits and Fees from the sale of personalized tags and sales decreased \$54 thousand over fiscal year 2010.
- Investment income increased by \$13 thousand due to an increase in cash for investments and a change from Repo Agreements to Money Market investments.
- Federal Grants and Reimbursements decreased by \$556 thousand due to less availability of federal grants.
- Expenditures for Natural Resources and Recreation decreased \$29.860 million due to fewer major land purchases during fiscal year 2011.
- Operating Transfers In increased by \$5.501 million in fiscal year 2011 due to higher investment income and recognition of unrealized gain transfers from the Alabama Trust Fund.
- Operating Transfers Out decreased by \$4.867 million due to fewer major land acquisitions requiring a monetary transfer of 15% of the appraised value of the land to the Forever Wild Stewardship Fund.

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Basic Financial Statements

Governmental Funds Balance Sheet/Statement of Net Assets
Alabama Trust Fund and Forever Wild Land Trust
September 30, 2011
(Amounts in Thousands)

	Alabama Trust Fund	Forever Wild Land Trust
<u>Assets</u>		
Cash and Cash Equivalents	\$ 43,379	\$ 373
Investments	2,548,367	13,464
Due from Other Funds	598,957	
Investment Sales Receivable	70,479	
Accounts Receivable	19,647	
Interest Receivable	20,555	
Securities Lending Collateral	118,511	
Capital Assets Not Depreciated		
Total Assets	<u>3,419,895</u>	<u>13,837</u>
<u>Liabilities and Fund Balances</u>		
<u>Liabilities</u>		
Warrants Payable		1
Investment Purchases Payable	171,184	
Due to Other Funds	48	
Accounts Payable	158	62
Securities Lending Obligation	118,511	
Deferred Revenues	3,392	
Total Liabilities	<u>293,293</u>	<u>63</u>
<u>Fund Balances</u>		
Restricted for Natural Resources and Recreation	28,233	13,774
Restricted for General Government	32,556	
Restricted for Capital Projects	33,224	
Restricted for Alabama Trust Fund Capital	3,032,589	
Total Fund Balances	<u>3,126,602</u>	<u>13,774</u>
Total Liabilities and Fund Balances	<u>\$ 3,419,895</u>	<u>\$ 13,837</u>
<u>Net Assets</u>		
Invested in Capital Assets		
Restricted for Alabama Forever Wild Stewardship Account		
Restricted for Alabama Trust Fund Capital		
Restricted for Disbursement		
Restricted for Natural Resources and Recreation		
Total Net Assets		

The accompanying Notes to the Financial Statements are an integral part of this statement.

Total	Reconciling Items (Note 3)	Statement of Net Assets
\$ 43,752	\$	\$ 43,752
2,561,831		2,561,831
598,957		598,957
70,479		70,479
19,647		19,647
20,555	(4,056)	16,499
118,511		118,511
	162,705	162,705
<u>3,433,732</u>	<u>158,649</u>	<u>3,592,381</u>

1		1
171,184		171,184
48		48
220		220
118,511		118,511
3,392	(3,392)	
<u>293,356</u>	<u>(3,392)</u>	<u>289,964</u>

42,007	(42,007)	
32,556	(32,556)	
33,224	(33,224)	
<u>3,032,589</u>	<u>(3,032,589)</u>	
<u>3,140,376</u>	<u>(3,140,376)</u>	
<u>\$ 3,433,732</u>		

162,705	162,705
25,538	25,538
3,031,925	3,031,925
68,475	68,475
13,774	13,774
<u>\$ 3,302,417</u>	<u>\$ 3,302,417</u>

***Statement of Governmental Revenues, Expenditures and Changes in
Fund Balances/Statement of Activities
Alabama Trust Fund and Forever Wild Land Trust
For the Year Ended September 30, 2011
(Amounts in Thousands)***

	Alabama Trust Fund	Forever Wild Land Trust
<u>Revenues</u>		
Licenses, Permits and Fees	\$	\$ 191
Investment Income	97,380	28
Federal Grants and Reimbursements		1,759
Other Revenues	119,716	
Total Revenues	217,096	1,978
<u>Expenditures/Expenses</u>		
Natural Resources and Recreation	891	8,679
General Government	5,826	
Total Expenditures/Expenses	6,717	8,679
Excess (Deficiency) of Revenues Over (Under) Expenditures	210,379	(6,701)
<u>Other Financing Sources (Uses)</u>		
Transfers In	1,201	15,640
Transfers Out	(214,564)	(1,664)
Total Other Financing Sources (Uses)	(213,363)	13,976
Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out/Change in Net Assets	(2,984)	7,275
Fund Balances/Net Assets - October 1, 2010	3,129,586	6,499
Fund Balances/Net Assets - September 30, 2011	\$ 3,126,602	\$ 13,774

The accompanying Notes to the Financial Statements are an integral part of this statement.

Total		Reconciling Items (Note 3)	Statement of Activities	
\$	191	\$	\$	191
	97,408		838	98,246
	1,759			1,759
	119,716			119,716
	219,074		838	219,912
	9,570		(8,581)	989
	5,826			5,826
	15,396		(8,581)	6,815
	203,678		9,419	213,097
	16,841			16,841
	(216,228)			(216,228)
	(199,387)			(199,387)
	4,291		9,419	13,710
	3,136,085		152,622	3,288,707
\$	3,140,376	\$	162,041	\$ 3,302,417

Notes to the Financial Statements

For the Year Ended September 30, 2011

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Alabama Trust Fund (ATF) and the Alabama Forever Wild Land Trust (AFWLT) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The State of Alabama Legislature passed Amendment 450 to the *Alabama Constitution of 1901* that created the Alabama Trust Fund (ATF) as an irrevocable permanent trust fund. The citizens of the State of Alabama ratified the amendment June 4, 1985. The ATF was created for the purpose of investing the proceeds of oil and gas bids awarded on August 14, 1984, for continuing benefit of the State of Alabama and the citizens thereof. The ATF is under the management and control of the Alabama Trust Fund Board, and all powers necessary or appropriate for the management and control of the trust fund are vested solely in the Board. The Board utilizes the facilities of the State Treasurer in the administration of the ATF.

The ATF is part of the primary government of the State of Alabama. It is reported in the Comprehensive Annual Financial Report as a major governmental fund.

The State of Alabama General Fund transferred into the ATF, as the initial trust capital, moneys in an amount equal to the sum of all proceeds of any oil and gas capital payments received by the State pursuant to the sealed bids awarded on August 14, 1984. The division of lands of the Department of Conservation and Natural Resources received four percent of the proceeds of these awards which had been received by the State pursuant to the sealed bids awarded on August 14, 1984, which sum was carried in the State treasury to the credit of the State lands fund.

In addition to the transfer by the General Fund into the ATF, the Alabama Heritage Trust Fund transferred its trust capital to the ATF as required by Amendment 450. The Alabama Heritage Trust Fund, created by Amendment 394, was a separate large trust fund consisting primarily of oil and gas royalties. The Alabama Heritage Trust Fund's trust capital was transferred to the Alabama Trust Fund during the fiscal year ended September 30, 2002, as stipulated in Amendment 450. The amortized cost of the investments on the date the transfer occurred was \$467,002,693 and the fair value of the investments was \$456,434,138.

Notes to the Financial Statements

For the Year Ended September 30, 2011

The ATF trust capital is augmented by (1) such other moneys or assets as the Legislature may by law appropriate and transfer to the trust fund as a permanent part thereof; (2) such other moneys or assets as may be contributed to the trust fund from any source; and (3) all proceeds of any oil and gas capital payments as defined in Amendment 450 subsequent to August 14, 1984. The State Lands Division of the Department of Conservation and Natural Resources receives one percent of all proceeds of any oil and gas capital payments as defined in Amendment 450 subsequent to August 14, 1984, which sum is carried in the State treasury to the credit of the State Lands Fund.

The trust capital is to be held in perpetual trust and not appropriated by the Legislature or expended or disbursed for any purpose other than to acquire eligible investments in accordance with the provisions of Amendment 450. Amendment 488 to the *Alabama Constitution of 1901* broadened the scope of eligible investments for the fund.

Amendment 488 was ratified by the citizens of Alabama on November 23, 1988. This amendment authorizes the ATF to invest in such kinds of investments as authorized by law for the investment of any of the trust funds of either the Teachers' Retirement System of Alabama or the Employees' Retirement System of Alabama. The Teachers' Retirement System of Alabama and the Employees' Retirement System of Alabama may invest in any types of investments that the Board of Control of each individual system approves. All eligible investments acquired, in whole or in part, constitute part of the trust capital, but any trust income derived there from is to be paid directly into the general fund as it is received by the Board, subject to appropriation and withdrawal by the Legislature.

Amendment 450 requires, beginning with state fiscal year 1989-1990, one percent of the income from the Alabama Trust Fund to be reinvested in the Alabama Trust Fund; two percent of such income to be reinvested in the following year; and one additional percent of such income each subsequent year to be reinvested until a total of ten percent of such income from the Alabama Trust Fund each year is reinvested in the Alabama Trust Fund; however, as discussed in the following paragraphs, this was changed with Amendment 543 of the *Alabama Constitution of 1901*.

Notes to the Financial Statements

For the Year Ended September 30, 2011

The State of Alabama Legislature passed Amendment 543 to the *Alabama Constitution of 1901* that created the Alabama Forever Wild Land Trust (AFWLT) as a permanent trust fund. The citizens of the State of Alabama ratified the amendment on February 2, 1993. The AFWLT was created for the purpose of identifying, acquiring, managing, protecting and preserving natural lands and waters that are of environmental or recreational importance and to protect the natural heritage of Alabama for the benefit of present and future generations. The AFWLT is under the management and control of the Alabama Forever Wild Land Trust Board. The Department of Conservation and Natural Resources serves as the lead management agency with respect to all lands acquired and shall have the responsibility of providing to the Board administrative support as necessary. The Board is authorized at its discretion to recommend that moneys paid into the AFWLT be allowed to accumulate, with only the income thereon being spent, or that the corpus or principal of the AFWLT be expended in whole or in part.

The AFWLT is part of the primary government of the State of Alabama. It is reported in the Comprehensive Annual Financial Report as a non-major governmental fund.

Amendment 543 required, beginning with state fiscal year 1992-1993, the percentage of trust income earned from the ATF that would have been reinvested in the ATF under Amendment 450 be allocated and paid into the AFWLT. Beginning with state fiscal year 1992-1993, the amount to be allocated was four percent with one additional percent each subsequent year until a total of ten percent is allocated and paid into the AFWLT. Thereafter, ten percent of the trust income earned from the ATF is allocated and paid into the AFWLT; provided, however, that in no event shall such trust income paid to the AFWLT exceed \$15 million in any one fiscal year.

Title to the property acquired from funds in the AFWLT is required to be held in the ATF for the State of Alabama. The total cost of land held by the Alabama Trust Fund at September 30, 2011 was \$162,705,453. Amendment 543 provides that the Alabama Trust Fund Board shall not have any responsibility for nor any control over the approving or disapproving of the acquisition, disposition or use of any such property.

Amendment 543 established a separate account within the ATF known as the Alabama Forever Wild Land Trust Stewardship Account (Stewardship Account). When the Alabama Forever Wild Land Trust acquires property or an interest in property, the AFWLT Board transfers an amount from the AFWLT equal to fifteen percent of the appraised value of the land acquired to the Stewardship Account. The ATF Board provides for the investment of the Stewardship Account. The AFWLT Board may authorize the expenditure of any interest income generated from the investment of funds within the Stewardship Account by the ATF. The AFWLT Board may authorize by a three-fifths vote that funds within the corpus of the Forever Wild Land Trust Stewardship Account be expended by the Department for management purposes for the next fiscal year, provided that funds from the Stewardship Account may not be expended to purchase additional property or interests therein.

Notes to the Financial Statements

For the Year Ended September 30, 2011

The State of Alabama Legislature passed Act Number 2000-491 that proposed an amendment to the *Alabama Constitution of 1901*. The proposed amendment was submitted to the citizens of the State of Alabama at the November 7, 2000 election and proclaimed ratified December 13, 2000. Amendment 666 to the *Alabama Constitution of 1901* redistributed a portion of the oil and gas capital payments now being paid into the ATF pursuant to Amendment 450.

Amendment 666 established the County and Municipal Government Capital Improvement Trust Fund and the Alabama Capital Improvement Trust Fund. Beginning on October 1, 2001, thirty-five percent (35%) of all oil and gas capital payments paid into the ATF in any fiscal year shall be transferred by the State Treasurer to the special trust funds created by Amendment 666 in the following manner: (a) an amount equal to seven percent (7%) of all oil and gas capital payments received by the ATF during the preceding fiscal year shall be paid into the County and Municipal Government Capital Improvement Trust Fund; and (b) an amount equal to twenty-eight percent (28%) of all oil and gas capital payments received by the ATF during the preceding fiscal year shall be paid into the Alabama Capital Improvement Trust Fund. Funds in the Alabama Capital Improvement Trust Fund may be appropriated for capital improvements only upon the certification by the Governor, based upon the recommendation of the Director of Finance.

Amendment 666 changed the distribution of the trust income and capital gains earned by the ATF now being distributed pursuant to Amendment 450 and *Code of Alabama 1975*, Sections 11-29-4 and 11-66-4. In fiscal years in which the trust income exceeds \$60,000,000, ten percent (10%) of the trust income shall be distributed to the Municipal Government Capital Improvement Fund and ten percent (10%) to the County Government Capital Improvement Fund. Additionally, the fiscal year following the first fiscal year that the Forever Wild Land Trust receives \$15,000,000 from the trust income of the ATF, one-fourth (1/4) of one percent of the trust income earned from the ATF shall be allocated to the Alabama Senior Services Trust Fund (ASSTF). This allocation shall increase each fiscal year by one-fourth (1/4) of one percent of the trust income earned from the ATF; provided, however, that in no event shall such trust income paid to the ASSTF exceed \$5,000,000 in any one fiscal year. During fiscal year 2011, the ATF transferred trust income of \$1,013,938 to Alabama Senior Services Trust Fund.

Notes to the Financial Statements

For the Year Ended September 30, 2011

Amendment 666 provides that the ATF may also transfer up to seventy-five percent (75%) of the realized capital gains. “Realized Capital Gains” means gains from the sale or exchange of assets of the Alabama Trust Fund, other than fixed income assets; to the extent they exceed losses from the sale of such assets. The amount of the gain or loss on the sale of an asset shall be determined by subtracting from the proceeds of selling the asset its fair market value as of the end of the immediately preceding fiscal year. The amount distributed, if any, is determined by the Board. The amount distributed shall be divided as follows: 10% to the County Government Capital Improvement Fund and 10% to the Municipal Government Capital Improvement Fund and the remainder of such realized capital gains shall be paid into the General Fund, except that a portion of such realized gains shall be distributed in the same manner as and deemed to be a part of trust income for purposes of the distributions required under Sections 7 and 13 of Amendment 543 to the *Alabama Constitution of 1901*. During fiscal year 2011, there were no realized gains transferred because there was a net loss in the immediately preceding fiscal year.

Also, Amendment 666 provides the guidelines for distribution of up to 75% of the unrealized capital gains earned by the ATF. According to Amendment 666, unrealized capital gains means the excess of the fair market value of the ATF investments on the last day of the fiscal year over the fair market value of the investments on the last day of the immediately preceding fiscal year. The fair market value of the investments on the last day of a fiscal year shall be determined without including the trust income for the fiscal year, realized capital gains for the fiscal year, or the fair market value of fixed income assets. The amount distributed, if any, is determined by the Board. Any unrealized capital gains distributed shall be divided as follows: 10% to the County Government Capital Improvement Fund, and 10% to the Municipal Government Capital Improvement Fund, and the remainder of such unrealized capital gains shall be paid to the General Fund except that a portion of such shall be distributed in the same manner as trust income as mentioned in the above paragraph. The first distribution of capital gains in fiscal year 2003 resulted in a reduction of the trust principal, which also resulted in a reclassification of the ATF’s fund type for financial reporting purposes. GASB Statement Number 34, Paragraph 65 states that permanent trust funds report resources that “are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government’s programs.” The fund classification for reporting purposes is a special revenue fund. During fiscal year 2011, the ATF transferred unrealized capital gains of \$80,130,411.

Amendment 666 also authorized the State of Alabama to become indebted and to sell and issue its interest-bearing General Obligation Bonds, in addition to all other bonds of the State, in an aggregate principal amount not exceeding \$350 million. Amendment 796 increased the \$350 million to an aggregate principal amount not exceeding \$750 million.

Notes to the Financial Statements

For the Year Ended September 30, 2011

Amendment 668 was ratified on December 13, 2000. This amendment provides the State Comptroller with allocation guidelines for the annual distributions to the counties and cities from the County Government Capital Improvement Fund and the Municipal Government Capital Improvement Fund.

The State of Alabama Legislature passed Amendment 709 to the *Alabama Constitution of 1901* which created the Education Trust Fund Rainy Day Account (Rainy Day Account) within the Alabama Trust Fund. This Amendment was submitted at the June 4, 2002 election and proclaimed ratified on August 8, 2002. Upon creation the Rainy Day Account was credited with \$248,000,000 of oil and gas capital payments. Once established, no further amounts from the Alabama Trust Fund could be credited to the Rainy Day Account. Funds from the Rainy Day Account could be withdrawn only to prevent proration of the appropriations for the public schools, public colleges and universities, public schools for the deaf and blind, including all appropriations to the Alabama Institute for the Deaf and Blind, public schools for the mentally ill and retarded, and other entities established by general statute for public school students from the Education Trust Fund. In the event funds were withdrawn from the Rainy Day Account an additional amount equal to 25% of the Education Trust Fund transfer amount was to be transferred from the Alabama Trust Fund to the County and Municipal Government Capital Improvement Fund. The Legislature was required to provide for the replenishment of the account within five years after withdrawal of any funds from the Education Trust Fund Rainy Day Account.

Notes to the Financial Statements

For the Year Ended September 30, 2011

The *Alabama Constitution of 1901*, Amendment 803 was ratified December 1, 2008 which repealed and replaced Amendment 709 to the *Alabama Constitution of 1901*. Amendment 803 created within the Alabama Trust Fund the Education Trust Fund Rainy Day Account and the General Fund Rainy Day Account. In any year in which the Governor certifies to the state comptroller and notifies the Legislature that proration would occur in appropriations from the Education Trust Fund or the State General Fund, the Education Trust Fund Rainy Day Account or the General Fund Rainy Day Account shall be credited with Oil and Gas Capital Payments previously transferred into the Alabama Trust Fund in the amount required to fund withdrawals from the Account of the amounts authorized by this section. However, the amount withdrawn from the Education Trust Fund Rainy Day Account in a fiscal year may not exceed six and one-half percent of the previous fiscal year's Education Trust Fund appropriations less the total amount of any prior years' withdrawals from the Account which have not been repaid to the Account. The amount withdrawn from the General Fund Rainy Day Account in a fiscal year may not exceed ten percent of the previous fiscal year's General Fund appropriations less the total amount of any prior years' withdrawals from the Account which have not been repaid to the Account. Beginning in the fiscal year beginning October 1, 2009, withdrawals from the Education Trust Fund Rainy Day Account and the General Fund Rainy Day Account shall be limited to an amount necessary to reach the average of the estimated available revenue for each Fund which is to be certified by the Finance Director and the Legislative Fiscal Officer prior to the third legislative day of each Regular Session. Funds from the Education Trust Fund or the General Fund Rainy Day Account may be withdrawn only to prevent proration of the appropriations from the Education Trust Fund or the General Fund. In the event funds are withdrawn from the Education Trust Fund or the General Fund Rainy Day Account, an additional amount equal to twenty-five percent of the Education Trust Fund or the General Fund transfer amount shall be transferred from the Alabama Trust Fund to the County and Municipal Government Capital Improvement Fund. The Legislature must replenish the accounts within six years after withdrawal of any funds from the Education Trust Fund Rainy Day Account and within ten years after withdrawal of any funds from the General Fund Rainy Day Account.

Amendments 450 and 543 to the *Alabama Constitution of 1901* clearly establish two separate legal entities; however, the ATF and the AFWLT are presented as one entity for financial reporting purposes. The AFWLT would not exist were it not for the ATF. Additionally, Amendment 543 established the AFWLT Stewardship Account as an account within the ATF. Therefore, we reported the AFWLT Stewardship Account within the ATF.

Notes to the Financial Statements

For the Year Ended September 30, 2011

B. Government-Wide and Fund Financial Statements

The government-wide and fund financial statements have been combined and linked together by a reconciliation column. The Statement of Activities is combined with the Statement of Revenues, Expenditures and Changes in Fund Balances. The Statement of Net Assets is combined with the Balance Sheet. Using a combination approach requires the reformatting of the Statement of Activities or the Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Net Assets or the Balance Sheet. The reformatting is evident by the reconciliation column with the explanations for the reconciliation items disclosed in Note 3.

Government-Wide Financial Statements

Government-wide financial statements include two basic financial statements: the Statement of Net Assets and the Statement of Activities.

The Statement of Net Assets presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net Assets are reported in three categories: 1) Invested in capital assets, net of related debt, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets; 2) Restricted net assets result when constraints placed on net assets use are either externally imposed by creditors, grantors, contributors and the like or imposed by law through constitutional provisions or enabling legislation; and 3) Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them available for general operations.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues.

Fund Financial Statements

The fund financial statements include the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances.

The Balance Sheet reports information about the current financial resources (assets, liabilities, and fund balances).

The Statement of Revenues, Expenditures and Changes in Fund Balances reports information about the inflows, outflows, and balances of current financial resources.

Notes to the Financial Statements

For the Year Ended September 30, 2011

The State of Alabama uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The ATF and the AFWLT are funds within the State of Alabama.

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate “fund types.” The ATF and AFWLT are both special revenue funds. Special revenue funds are used to account for specific revenue sources that are legally restricted to finance particular functions and activities. Special revenue funds are in the governmental fund category. Governmental fund reporting focuses primarily on the sources, uses, and balances of current financial resources.

C. Measurement Focus and Basis of Accounting

The financial statements are reported in conformity with generally accepted accounting principles (GAAP).

The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

The government-wide statements, under GAAP, are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized and recorded when earned and expenses are recorded when a liability is incurred.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this focus, only current assets and current liabilities generally are included on the balance sheet. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period as when the obligations are recognized. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

D. Cash, Cash Equivalents and Investments

Cash includes bank demand deposits held in the state treasury. Investments as reported on the combined balance sheets include long-term investments. As required by GASB Statement Number 31, “Accounting and Financial Reporting for Certain Investments and for External Investment Pools,” investments are stated at fair value.

Notes to the Financial Statements

For the Year Ended September 30, 2011

E. Capital Assets

Capital assets include land and are reported on the Statement of Net Assets. Capitalized assets are recorded at historical cost. Costs include the acquisition of land along with ancillary charges. Inexhaustible capital assets such as land and land improvements are not depreciated.

F. Fund Balances

Restricted fund balances have constraints placed on the use of the resources that are either
1) externally imposed by creditors, grantors, contributors, or laws of other governments or
2) imposed by law through constitutional provisions or enabling legislation.

G. Interfund Transactions

Interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Payments from the ATF to the General Fund and the AFWLT are distributions of trust income and recorded as transfers out and transfers in for the fund receiving the trust income payments.

Pursuant to the provisions of Amendment 803, in any year in which the Governor certifies to the state comptroller and notifies the Legislature that proration would occur in appropriations from the Education Trust Fund or the State General Fund, the Education Trust Fund Rainy Day Account or the General Fund Rainy Day Account shall be credited with Oil and Gas Capital Payments previously transferred into the Alabama Trust Fund in the amount required to fund withdrawals from the Account of the amounts authorized by this section. In fiscal year 2010, the Alabama Trust Fund credited the General Fund Rainy Day Account with \$161,565,874 which was subsequently loaned to the General Fund. This loan is reported in the financial statements as Due From Other Funds because the General Fund is required to repay this amount within ten years. In fiscal year 2009, the Alabama Trust Fund credited the Education Trust Fund Rainy Day Account with \$437,390,828 which was subsequently loaned to the Education Trust Fund. This loan is also reported in the financial statements as Due From Other Funds because the Education Trust Fund is required to repay this amount within six years.

In the event funds are withdrawn from the Education Trust Fund or the General Fund Rainy Day Account, an additional amount equal to twenty-five percent of the Education Trust Fund or the General Fund transfer amount shall be transferred from the Alabama Trust Fund to the County and Municipal Government Capital Improvement Fund. In fiscal year 2010, \$40,391,469 was transferred to the County and Municipal Government Capital Improvement Fund. In fiscal year 2009, \$109,347,707 was transferred to the County and Municipal Government Capital Improvement Fund. These amounts are not required to be repaid.

Notes to the Financial Statements

For the Year Ended September 30, 2011

H. Receivables

In the government-wide and the fund financial statements, the receivables reported represent interest due from trust investments and royalties due from oil companies, due and payable, on or before the 15th day of the second month following the month of production as certified by an affidavit from the lessee. Additionally, investment sales receivable consists of pending sales of investments in which the trade date occurred prior to September 30 for which the settlement date occurred after September 30.

I. Budgets

The financial activities of the ATF and the AFWLT are not subject to the normal budgetary process. Their financial activities are governed by the various aforementioned constitutional amendments; therefore, budget and actual statements are not presented.

J. New Accounting Pronouncements

During the current fiscal year, the ATF and the AFWLT implemented the new accounting pronouncement, GASB Statement Number 54: Fund Balance Reporting and Governmental Fund Type Definitions.

Note 2 – Deposits and Investments

A. Deposits

Cash includes bank demand deposits held in the state treasury and are fully insured or collateralized by the Security for Alabama Funds Enhancement (SAFE) program operated by the State Treasurer's Office as authorized by the ***Code of Alabama 1975***, Sections 41-14A-1 through 41-14A-14 as amended.

Notes to the Financial Statements

For the Year Ended September 30, 2011

B. Investments

Amendment 450 to the *Alabama Constitution of 1901* states that the trust capital shall be held in perpetual trust and that the trust capital may not be appropriated by the Legislature, or expended or disbursed for any purpose other than to acquire eligible investments in accordance with the provisions of Amendment 450. To the extent practicable, the Board must keep all moneys invested in eligible investments to produce the greatest trust income while preserving the trust capital. The Board has complete discretion in making decisions as to how and when investments are made. The only restriction on the Board pertaining to the investment of ATF moneys is that investments must be made with the same judgment and care that an institutional investor of the highest standard of prudence, intelligence and financial expertise would exercise under the circumstances prevailing at the time, not for the purpose of speculative profit, but for the generation of optimum income while preserving the safety and permanence of the trust.

Amendment 488 to the *Alabama Constitution of 1901* authorizes the ATF to invest in such kinds of investments and in accordance with such conditions as shall from time to time be authorized by law for the investment of any of the trust funds of either the Teachers' Retirement System of Alabama or the Employees' Retirement System of Alabama. If any restrictive conditions at any time made applicable by law to either the Teachers' Retirement System of Alabama or the Employees' Retirement System of Alabama should prohibit investments that would otherwise be permitted for the ATF by Amendment 450 to the *Alabama Constitution of 1901*, then, notwithstanding the restrictive conditions applicable to said retirement systems, the investments permitted by Amendment 450 shall be permitted for trust capital and trust income held in the ATF.

Investments are subject to certain types of risks; credit risk (including custodial credit risk and concentration of credit risk), interest rate risk, and foreign currency risk. The following describes those risks.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Nationally recognized statistical rating organizations provide ratings of debt securities quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations.

Notes to the Financial Statements

For the Year Ended September 30, 2011

The following table provides information as of September 30, 2011, concerning credit risk for the ATF (amounts in thousands).

Ratings of Fixed Maturities		
Moody's Ratings § (Unless Noted)	Fair Value	Percentage of Total Fixed Maturity Fair Value
Aaa	\$ 410,695	26.70%
Aa1	12,268	0.80%
Aa2	32,073	2.09%
Aa3	33,866	2.20%
A1	29,855	1.94%
A2	51,196	3.33%
A3	38,141	2.48%
Baa1	55,385	3.60%
Baa2	81,059	5.27%
Baa3	31,624	2.06%
Ba1	16,825	1.09%
Ba2	5,085	0.33%
Ba3	5,127	0.33%
B1	5,097	0.33%
B2	5,549	0.36%
B3	1,451	0.09%
C	105	0.01%
Ca	3,897	0.25%
Caa1	1,301	0.08%
Caa2	3,370	0.22%
Caa3	6,373	0.41%
AAA(SP)	8,035	0.52%
AA(SP)	3,983	0.26%
AA-(SP)	2,782	0.18%
AA+(SP)	2,385	0.16%
A(SP)	11,965	0.78%
A-(SP)	5,806	0.38%
A+(SP)	3,783	0.25%
B(SP)	2,953	0.19%
B-(SP)	112	0.01%
B+(SP)	2	0.00%
BB(SP)	690	0.04%
BB-(SP)	333	0.02%
BB+(SP)	397	0.03%
BBB(SP)	2,576	0.17%
BBB-(SP)	8,833	0.57%
BBB+(SP)	6,303	0.41%
CCC(SP)	2,365	0.15%
CCC-(SP)	15	0.00%
CCC+(SP)	44	0.00%
CC(SP)	3,493	0.23%
D(SP)	1	0.00%
Guaranteed by U. S. Gov't	586,747	38.16%
Not Rated	54,062	3.52%
Total	<u>\$1,538,007</u>	<u>100.00%</u>

§ - The Moody's ratings are used when available. The Standard and Poor's rating is used when it is available and the Moody's rating is not available. Standard and Poor's ratings are denoted by (SP). Fixed maturity investments that are not rated are included in the "Not Rated Category," and consist of certain mortgage backed securities and corporate bonds.

Notes to the Financial Statements

For the Year Ended September 30, 2011

Custodial Credit Risk – For an investment, custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails.

The Retirement Systems of Alabama's custodian, State Street Bank and Trust Company, manages a portion of the program for the ATF. The RSA's custodial credit risk policy requires the custodial agent to hold or direct its agents or sub-custodians to hold, for the account of the RSA all securities and other non-cash property other than securities in the Federal Reserve book entry system, in a clearing agency which acts as a securities depository, or in another book entry system. The RSA's safekeeping agent holds all investments of the RSA in the RSA's name, with the exception of securities purchased with securities lending collateral.

The Alabama Trust Fund's custodian, Bank of New York Mellon (BNYM), provides a portion of the custodial services for the ATF. The ATF's custodial credit risk policy authorizes BNYM to hold securities in registered form in the name of its nominee. The policy requires BNYM to establish and maintain one or more securities accounts (book entry system) in which BNYM will hold the securities. These accounts are in the name of the ATF.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investments with a single issuer. The investment policy of the ATF states that the investment portfolio shall be diversified by both asset class and within asset classes, by economic sector and industry. The purpose of the diversification is to reduce the specific risk associated with any single security or class of securities. For equity investments, the aggregate investment in equity securities of any one issuing corporation shall not exceed one percent of the outstanding capital of such corporation. For fixed income investments, the portfolio is to be diversified so that no more than fifteen percent is invested in one industry (does not apply to U. S. government and agency securities), and no more than five percent of the total fixed income portfolio may be invested in securities of any one corporation.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of those investments. The ATF investment policy states that the portfolio's average duration is not to exceed 1.5 times that of the benchmark index. The ATF's investment policy also states that to protect the fund from inflationary erosion and to satisfy the investment objectives a growth portfolio of equities and other financial instruments should be maintained to augment fixed income investments.

Notes to the Financial Statements

For the Year Ended September 30, 2011

As of September 30, 2011, the ATF had the following investments and maturities (amounts in thousands).

Investment Type	Fair Value	Investment Maturities			
		Less Than 1 Year	1 - 5 Years	6 -10 Years	More Than 10 Years
Fixed Maturities:					
U. S. Treasury Securities	\$295,738	\$10,402	\$114,390	\$101,904	\$ 69,042
U. S. Agency Securities	180,770	7,695	47,011	45,166	80,898
State and Local Government Securities	10,590	0	0	1,894	8,696
Mortgage Backed Securities	615,103	11	7,359	37,342	570,391
Corporate Bonds	433,675	48,111	128,088	158,582	98,894
Sub-Total Fixed Maturities	1,535,876	\$66,219	\$296,848	\$344,888	\$827,921
Equities, Mutual Funds, Real Estate, and Other:					
Domestic Common and Preferred Stock	583,615				
International Stocks	120,377				
Mutual Funds and Money Market Funds	300,879				
Real Estate	7,620				
Total	<u>\$2,548,367</u>				

Notes to the Financial Statements

For the Year Ended September 30, 2011

Foreign Currency Risk – This is the risk that changes in exchange rates will adversely affect the fair value of an investment. The investment policy of the ATF states that the aggregate market value of international equities is limited to nine percent of the aggregate market value of the total portfolio. The exposure to emerging market securities shall be limited to 20% of the market value of the international portfolio. Not more than five percent of the total stock portfolio may be invested in the common stock of any one corporation at the time of purchase and no more than seven percent in any one corporation at market. Not more than five percent of the outstanding shares of any one company may be held by the portfolio. In addition, no more than the lesser of (2 times the sector weight in the index and 40%) valued at market may be held in any one economic sector as defined by the MSCI (Morgan Stanley Capital International). As of September 30, 2011, the ATF was exposed to Foreign Currency Risk as demonstrated in the table below (amounts in thousands of U. S. dollars).

Deposits and Investments Exposed to Foreign Currency Risk			
Currency	Cash	International Equities	International Bonds
Australian Dollar	\$ 0	\$ 4,252	\$ 0
Brazilian Real	0	2,117	0
British Pound Sterling	42	27,793	0
Canadian Dollar	5	4,415	0
Danish Krone	0	2,741	0
Euro Currency	28	30,204	0
Hong Kong Dollar	0	8,696	0
Japanese Yen	1	20,684	0
Mexican Peso	0	934	737
Norwegian Krone	0	603	0
Singapore Dollar	0	419	0
South African Rand	0	417	0
South Korean Won	0	2,779	0
Swedish Krona	0	2,883	0
Swiss Franc	0	10,434	0
Turkish Lira	0	1,006	0
Total	\$76	\$120,377	\$737

C. Securities Lending

The Alabama Trust Fund (ATF) investment managers are authorized by the Board of Trustees to engage in securities lending under guidelines established by the ATF Investment Committee.

Notes to the Financial Statements

For the Year Ended September 30, 2011

The Retirement Systems of Alabama's custodian, State Street Bank and Trust Company, administers a portion of the program for the ATF. Certain securities from ATF are loaned to borrowers approved by the Retirement Systems of Alabama (RSA). Approved borrowers of securities provide acceptable collateral in the form of cash (U. S. and foreign currency), any other assets permissible under Rule 15c3-3 under the Exchange Act of 1934, U. S. and non U. S. equities and such other collateral as the parties may agree to in writing from time to time. All security loans are open loans and can be terminated on demand by the ATF or borrower. The initial collateral received shall have (depending on the nature of the loaned securities and the collateral received) a value of 102% or 105% of the market value of the loaned securities, or such other value, but not less than 102% of the market value of the loaned securities, as may be applicable in the jurisdiction in which such loaned securities are customarily traded. Pursuant to the terms of the applicable securities loan agreement, State Street shall, in accordance with State Street's reasonable and customary practices, mark loaned securities and collateral to their market value each business day based upon the market value of the collateral and the loaned securities at the close of business employing the most recently available pricing information and receive and deliver collateral in order to maintain the value of the collateral at no less than 100 percent of the market value of the loaned securities. The lender cannot pledge or sell collateral securities received unless the borrower defaults.

State Street Global Securities Lending Trust (GSLT) invests qualified cash collateral from loans of securities. As of September 30, 2011, the average term of the loans secured by the GSLT was approximately 48 days. Cash collateral investments in the GSLT are matured as needed to fulfill loan obligations. There is no direct matching of the maturities of the loans with the investments made with cash collateral. GSLT consists of a liquidating account known as the duration pool and a liquidity pool.

The GSLT duration pool was established effective December 10, 2010. As of that date, all GSLT asset-backed securities (regardless of maturity) and securities of any type with a remaining maturity of 91 days or greater were allocated to the duration pool. Each GSLT investor as of December 10, 2010 owns a specified percentage interest in the duration pool which is redeemable only in kind, not in cash. The GSLT duration pool will not make additional investments.

As of December 3, 2010, GSLT's Investment Policy Guidelines applicable to the liquidity pool provide that the Investment Manager (State Street Bank) shall maintain the dollar-weighted average maturity of GSLT in a manner that the Investment Manager believes is appropriate to the objective of GSLT; provided, that (i) in no event shall any eligible security be acquired with a remaining legal final maturity (i.e., the date on which principal must be repaid) of greater than 18 months, (ii) the Investment Manager shall endeavor to maintain a dollar-weighted average maturity of the GSLT not to exceed 75 calendar days and (iii) the Investment Manager shall endeavor to maintain a dollar-weighted average maturity to final of GSLT not to exceed 180 calendar days.

Notes to the Financial Statements

For the Year Ended September 30, 2011

At the time of purchase, (i) all eligible securities with maturities of 13 months or less shall (a) be rated at least A1, P1 or F1 by at least two of the following nationally recognized statistical rating organizations: Standard & Poor's Corp. ("S&P"), Moody's Investor Services, Inc. ("Moody's"), or Fitch, Inc. ("Fitch"), or (b) be determined by the Investment Manager to be of comparable quality and (ii) all eligible securities with maturities in excess of 13 months shall (a) be rated at least A-, A3 or A- by at least any two of S&P, Moody's or Fitch, or (b) be determined by the Investment Manager to be of comparable quality.

GSLT may invest up to 10% of its assets at time of purchase in commingled vehicles managed by the Trustee or its affiliates that conform to the Investment Policy Guidelines.

The Alabama Trust Fund's custodian, Bank of New York Mellon (BNYM), administers a portion of the program for the ATF. Certain securities from ATF are loaned to borrowers approved by the ATF Board of Trustees. Approved borrowers of securities provide acceptable cash collateral in the form of Federal funds or New York Clearing House funds as applicable for a particular loan. All security loans are open loans and can be terminated on demand by the ATF, BNYM, or the borrower. The initial collateral received shall have (i) in the case of loaned securities denominated in United States Dollars, cash collateral in the amount of 102% of the market value of the loaned securities or (ii) in the case of loaned securities which are not denominated in United States Dollars, cash collateral in the amount of 105% of the market value of the loaned securities. Pursuant to the terms of the applicable securities loan agreement, BNYM shall, in accordance with BNYM's reasonable and customary practices, mark loaned securities to their market value each business day based upon the market value of the loaned securities as of the close of business the preceding business day, employing the most recently available pricing information, and receive and deliver collateral in order to maintain the amount of cash collateral at no less than the collateral requirement. The ATF cannot pledge or sell collateral securities received unless the borrower defaults. As of September 30, 2011, the average term of the loans was approximately 123 days. Cash collateral investments are matured as needed to fulfill loan obligations.

All approved investments shall be for the account and risk of ATF. To the extent any loss arising out of approved investments results in a deficiency in the amount of collateral available for return to a borrower, ATF agrees to pay BNYM on demand cash in an amount equal to such deficiency.

Notes to the Financial Statements

For the Year Ended September 30, 2011

The following describes the manner in which BNYM is authorized to invest and reinvest cash collateral.

1. Securities issued or fully guaranteed by the United States Government and any agency, instrumentality, or establishment of the United States Government (“Government Securities”).
2. High-grade commercial paper, notes, bonds, and other debt obligations including promissory notes, funding agreements, and guaranteed investments contracts whether or not registered under the Securities Act of 1933, as amended. Such obligations may have fixed, floating, or variable rate interest payment provisions.
3. Asset-backed securities which carry the highest credit rating by S&P or Moody’s.
4. Certificates of deposit, time deposits and other bank obligations of U. S. banks, their branches and subsidiaries.
5. Repurchase and reverse repurchase agreements collateralized by approved investments.
6. Securities, units, shares and other participations in money market funds, unregistered short-term investment funds, pools or trusts.
7. Government securities have no maturity limit. Fixed rate instruments shall have a maturity of no greater than 13 months. Floating rate instruments rated “A” or “AA” shall have maturities no greater than three years with resets no less frequent than three months. Floating rate instruments rated “AAA” shall have maturities no greater than five years with resets no less frequent than three months.

Notes to the Financial Statements

For the Year Ended September 30, 2011

The fair values of securities on loan and the fair value of the collateral pledged by the borrowers are presented below. Since the amount owed by the ATF exceeded the amounts the borrowers owed to the ATF, there was no credit risk exposure as of September 30, 2011. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior period losses during the year.

Securities Lending - Investments Lent and Collateral Received at Fair Value (In Thousands)			
	RSA	BNYM	Total
<u>Type of Investment Lent:</u>			
For Cash Collateral			
Corporate Bonds	\$ 11,609	\$ 1,294	\$ 12,903
US Government	33,665	38,615	72,280
Domestic Equity	15,731	12,583	28,314
International Equity	0	2,014	2,014
Total Lent for Cash Collateral	61,005	54,506	115,511
For Non-Cash Collateral			
Corporate Bonds	0	0	0
US Government	60,532	0	60,532
Domestic Equity	7,477	0	7,477
International Equity	0	0	0
Total Lent for Non-Cash Collateral	68,009	0	68,009
Total Securities Lent	129,014	54,506	183,520
<u>Type of Collateral Received:</u>			
Cash Collateral	62,739	55,772	118,511
Non-Cash Collateral	69,931	0	69,931
Total Collateral	\$132,670	\$55,772	\$188,442

D. Mortgage-Backed Securities

Investments allowed by the ATF are defined as those authorized by law for the investment of any of the trust funds of either the Teachers' Retirement System of Alabama or the Employees' Retirement System of Alabama. These allowable investments include mortgage-backed securities, which were held by the ATF as of September 30, 2011. Embedded prepayment options cause these investments to be highly sensitive to changes in interest rates. Prepayments by the obligors of the underlying assets reduce the total interest payments to be received. Generally, when interest rates fall, obligors tend to prepay the mortgages, thus eliminating the stream of interest payments that would have been received under the original amortization schedule. The resulting reduction in cash flow diminishes the fair value of the mortgage-backed securities.

Notes to the Financial Statements

For the Year Ended September 30, 2011

The ATF invests in TBA (“to be announced”) purchase commitments, pursuant to which it agrees to purchase mortgage-backed securities. The TBA market developed in response to the demands of market participants for more liquidity in trading mortgage-backed securities. The TBA market is essentially a forward or delayed delivery market. The lender, or other market participant, will enter into a forward contract to sell mortgage-backed securities in the TBA market, promising to deliver mortgage-backed securities on the settlement date sometime in the future. At September 30, 2011, the Alabama Trust Fund had investments in TBA mortgage-backed securities in the amount of \$91,200,633.95. Included in investment purchases payable on the Statement of Net Assets is a liability related to the cost of acquiring these securities. Generally, these securities are closed with a gain or loss prior to settlement. However, the ATF would be obligated for those amounts should the securities be delivered.

E. Derivatives

Derivatives can be used by the ATF’s investment managers to manage cash positions, gain broad stock or bond market exposure and to manage risks with certain investment positions. The ATF Investment Policy allows derivative instruments to be used provided that the collateral is held in highly liquid securities and that they do not create the effect of leverage in the portfolio.

GASB Statement Number 53 requires that the fair value of the financial arrangements called “derivatives” or “derivative instruments” be reported in the financial statements of state and local governments. The statement further requires that derivatives be categorized as either an investment derivative or a hedge derivative. All of the ATF’s derivative exposures as of September 30, 2011, are categorized as investment derivatives and, therefore, the hedge accounting provisions of GASB Statement Number 53 are not applicable.

All derivatives instruments are presented in the financial statements and are reported at fair value. The ATF’s custodian, BNYM, uses market prices when available. BNYM used two vendors to value derivatives when market values are not available. The two vendors used by BNYM are *Markit* and *SuperDerivatives*. Both vendors consider their valuation process to be proprietary and not available for disclosure. Investment risks related to investment derivatives have been considered and included in the Investment Note B except for additional disclosures for interest rate risk and credit risk, which have been included in this section.

Notes to the Financial Statements
For the Year Ended September 30, 2011

The following table presents the derivative instruments outstanding as of September 30, 2011.

INVESTMENT DERIVATIVES INSTRUMENTS				
	Changes in Fair Value		Fair Value as of	
	Classification	Amount	Amount	Notional
Credit Default Swaps	Investment Income	\$ 32,574	\$ 2,711	\$ 5,672,862
Total Return Swaps	Investment Income	39	39	(40,761)
Interest Rate Swaps	Investment Income	477,146	469,169	(142,744)
Total Swaps		509,759	471,919	5,489,357
Futures	Investment Income	1,074,057	936,169	20,319,728
Total Futures		1,074,057	936,169	20,319,728
Total Derivatives	Investment Income	\$1,583,816	\$1,408,088	\$25,809,085

GASB Statement Number 53 requires the disclosure of the maximum amount of loss due to credit risk, based on the fair value of the instrument at the end of the fiscal year. The maximum amount of loss associated with all derivatives held by the ATF is \$3,535,860. GASB Statement Number 53 also requires additional interest rate risk disclosures for investment derivatives that are highly sensitive to interest rate fluctuations. Presented below are all applicable derivative instruments.

Type	Fair Value	Notional Amount	Maturity Date	Reference Rate
Interest Rate Swap	\$469,169	\$(142,744)	02/15/2041	Zero Coupon LIBOR 3 Month Rate
Totals	\$469,169	\$(142,744)		

Notes to the Financial Statements

For the Year Ended September 30, 2011

Note 3 – Reconciliation Items on the Combined Financial Statements

1. Governmental Funds Balance Sheet/Statement of Net Assets:
 - a. The adjustment to Interest Receivable (shown as \$4,056,000) is the reversal of the long-term interest portion of interest receivable that was not available to pay current period expenditures made in the prior fiscal year.
 - b. The adjustment to Deferred Revenues (shown as \$3,392,000) is the long-term interest receivable earned for the current period that will be collected after year-end, but will not be available soon enough to pay for the current period's expenditures, and therefore is deferred.
 - c. The adjustment to Capital Assets (shown as \$162,705,000) is the addition of capital assets (land) to the Statement of Net Assets, as capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds on the Balance Sheet.
 - d. Fund Balances are being deleted and Net Assets added to reformat the combined financial statements as mentioned in Note 1(B).
2. Statement of Governmental Revenues, Expenditures and Changes in Fund Balances/Statement of Activities:
 - a. The adjustment to Investment Income (shown as \$838,000) is comprised of the net of adjustments of \$664,000 and \$1,502,000. The \$664,000 is the net of two items: the reversal of the long-term portion of interest receivable from the prior fiscal year (shown as \$4,056,000) and the removal of the current year long-term portion of interest receivable (shown as \$3,392,000) since the interest earned is not available to pay the current period's expenditures. The \$1,502,000 is a reversal equal to the prior year net adjustment amount to Investment Income.
 - b. The adjustment to Natural Resources and Recreation (shown as \$8,581,000) is the current year increase in the Capital Assets (Land) account. Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives.
 - c. The adjustment to beginning Fund Balances (shown as \$152,622,000) is the balance in the Capital Assets account on October 1, 2010. Capital assets are not reported in the governmental funds while they are included on the Statement of Net Assets.
 - d. The Statement of Revenues, Expenditures and Changes in Fund Balances was reformatted to present the Statement of Activities as mentioned in Note 1(B).

Notes to the Financial Statements

For the Year Ended September 30, 2011

Note 4 – Subsequent Events

On October 4, 2011, the ATF made a transfer of oil and gas royalties in the amount of \$41,529,903.66 which was thirty-five percent of total royalties collected in the prior fiscal year, in accordance with Amendment 666 to the *Alabama Constitution of 1901*. The transfer was distributed as follows: seven percent to the County and Municipal Government Capital Improvement Trust Fund, \$8,305,980.73, and twenty-eight percent to the Alabama Capital Improvement Trust Fund, \$33,223,922.93.

On November 17, 2011, the ATF made a transfer of realized capital gains of \$18,778,772, in accordance with Amendment 666. The transfer was distributed as follows: ten percent to AFWLT, \$1,877,877.20, ten percent to the County Government Capital Improvement Fund, \$1,877,877.20, ten percent to the Municipal Government Capital Improvement Fund, \$1,877,877.20, and the remainder of \$13,145,140.40 to the General Fund.

Subsequent to year-end, the ATF made transfers of additional amounts of capital gains totaling \$345,665,873 for fiscal year 2003 through fiscal year 2007. The transfer was distributed as follows: \$266,371,226 to the General Fund, \$3,188,581 to the AFWLT, \$38,053,033 to the County Government Capital Improvement Fund, and \$38,053,033 to the Municipal Government Capital Improvement Fund.

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Additional Information

Board Members
Alabama Trust Fund
October 1, 2010 through September 30, 2011

Board Members		Term Expires
Hon. Robert Bentley, Chairman	Ex-Officio	2015
Hon. Marquita Davis, Vice-Chairman	Ex-Officio	2015
Hon. Young Boozer	Ex-Officio	2015
Hon. Raymond Harbert	Member	2012
Hon. Richard Bielen	Member	2017
Hon. Sandra Sims-deGraffenreid	Member	2015
Hon. Daniel Hughes	Member	2014
Hon. William Slaughter	Member	2013
Hon. Terry Bunn	Member	2016
Hon. Bob Riley	Ex-Officio	2011
Hon. Bill Newton	Ex-Officio	2011
Hon. Kay Ivey	Ex-Officio	2011
Hon. David Perry	Ex-Officio	Resigned 2011
Hon. Greg Brown	Member	2010

Board Members
Alabama Forever Wild Land Trust
October 1, 2010 through September 30, 2011

Board Members		Term Expires
Hon. N. Gunter Guy, Jr., Chairman	Ex-Officio	2015
Hon. Linda S. Casey	Ex-Officio	Indefinite
Hon. George Crozier	Ex-Officio	Indefinite
Hon. A. F. Schlundt	Member	2013
Hon. Robert O. Lawton	Member	2015
Hon. Larry Davenport	Member	2011
Hon. George Barber	Member	2012
Hon. Angus R. Cooper, III	Member	2014
Hon. Robert W. Taylor	Member	2016
Hon. Everett Johnson	Member	2012
Hon. Raymond A. Keller	Member	2014
Hon. James W. Porter, II	Member	2016
Hon. John Woller, Sr.	Member	2012
Hon. Richard D. Holland	Member	2014
Hon. Leo Allen	Member	2016
Hon. M. Barnett Lawley	Ex-Officio	2011
Hon. James A. Yance	Member	2010
Hon. Lee Robertson Kuwica	Member	2010

***Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With
Government Auditing Standards***

We have audited the financial statements of the governmental activities of the Alabama Trust Fund and the Alabama Forever Wild Land Trust as of and for the year ended September 30, 2011, which collectively comprise the Alabama Trust Fund's and the Alabama Forever Wild Land Trust's basic financial statements and have issued our report thereon dated June 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Alabama Trust Fund and the Alabama Forever Wild Land Trust is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Alabama Trust Fund's and the Alabama Forever Wild Land Trust's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Alabama Trust Fund's and the Alabama Forever Wild Land Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Alabama Trust Fund's and the Alabama Forever Wild Land Trust's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Alabama Trust Fund's and the Alabama Forever Wild Land Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

This report is intended solely for the information and use of management, the Alabama Trust Fund Board, the Alabama Forever Wild Land Trust Board, the Governor, the Director of Finance, the State Treasurer and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

June 26, 2012